

CHAPTER VI

CONCLUSION AND SUGESTION

A. Conclusion

The conclusions listed below are based on the results of research and analysis of data processed using econometric analysis tools namely Multiple Linear Regression which aims to determine the direction of a relationship between independent variable and dependent variable namely exchange rate, government expenditure, and economic growth represented by Indonesia gross domestic product on Indonesia's foreign debt in the period of observation of the first quarter of 2005 to the fourth quarter of 2017. Based on the research that has been done, it can be concluded as follows:

1. As an indicator of international relations of a State with other States and as the language of a means of payment, the rupiah exchange rate against the US dollar has an influence on the Indonesia government's external debt. Based on the results of the research analysis, the exchange rate of Indonesian Rupiah (IDR) against the US dollar (USD) has a negative and significant effect on the foreign debt of the Indonesian government in the period of study. According to (Yuliadi, 2006), this condition is understandable given that Indonesia's foreign debt is mostly expressed in US dollars so that when there is a rise in US dollar currency, the burden of the government's foreign debt increases .
2. Government spending as a part of the State development process and economic development has a very strong relationship with the government's external debt. Based on the results of the research analysis, government spending has a positive and significant influence in the period of study. This condition is caused by the

improvement of government spending in order to be more efficient. The implementation of this policy is shown by the increasing amount of government spending in the infrastructure sector, education, health and followed by energy subsidy. As the amount of government spending continues to increase, government is trying to close the gap between revenue and spending. The effort of increasing the capital expenditure of government expenditures that continue to swell is strongly influenced by the existence of loans from abroad. Thus the government's foreign debt trend keeps increasing from time to time as the additional source of fund in a country.

3. Gross domestic product as an indicator of economic growth has a positive and significant effect on Indonesia's foreign debt. This is in line with the economic policy being undertaken by the Ministry of Finance in the period of observation, which is to improve the quality of the state budget of income and expenditure more efficiently. One of sector which is being repaired in its spending portion in government spending is infrastructure. For the example is the making of Trans Papua road which is still under construction, this is done in order to make better the society to do their activities more over for economic activities. It makes the expenditure of government started to rise. From this condition, foreign debt assistance plays important role to achieve the goals of government. As the program is successfully done, the economic increasing and leads to the economic growth which increases as well the foreign debt amount with the same path. This reason is strongly supporting why economic growth is significantly influence government foreign debt.

4. Government revenue is as the part of source of fund for the government in order to achieve their goals. The result of this research is government revenue has negative and significant influence on government foreign debt. The reason is when government revenue is high, government does not need to obtain another source of fund to finance the need of the government itself. It means that government foreign debt is being taken if government revenue is not in the good condition.

B. Suggestion

1. For Indonesian Government

- a. In this study, when the exchange rate of the rupiah against the US dollar weakened (depreciation), the amount of foreign debt the government will then increase. Therefore, the author suggests to the government to be cautious in carrying out foreign loans when the rupiah exchange rate is weakening as this will have a significant effect on the increase in the amount of foreign debt of the government. In addition, because the rupiah exchange rate continues to weaken against the US dollar in recent time, the authors propose to focus more on the contractive monetary policy of reducing the money supply in the community in order to strengthen the value of rupiah in the economy. With the strengthening of the rupiah, the burden of the government's external debt is not too heavy to settle each period, which is coupled with the debt interest expense of each period of maturity.
- b. As government spending increases, government revenue decreases. The government's external debt also creates a dilemma in the economy. Under these

circumstances the researcher suggests the government be more careful in managing the State budget in order to reduce the risk of swelling government spending. Especially with the state budget conditions that are difficult not to deficit due to the incessant development of the State so it is not possible to cut the state budget expenditure directly. To that end, deliberate fiscal policy from the theoretical side is strongly advised, by making simultaneous changes to the system of tax collection to add the portion for government revenue. It is also suggested for changing in expenditure structure in order to reduce the debt rate. Knowing that expenditure recently is spent more on infrastructure, government should allocate the expenditure effectively and wisely in order to not waste the foreign debt fund which becomes higher from time to time. But again, in taking a policy should be more careful and see the conditions from various sides.

- c. Economic growth is one indicator of the success or failure of a State in the development of the State. To the authors suggest that the government continues to focus on improving both the quality of both economic growth and foreign debt. Increased GDP is highly recommended to support the sustainability of achieving economic growth targets every year, in addition to this will help reduce the portion of foreign debt in the burden of expenditures of the next period.

2. For Further Researchers

The authors suggest the next researcher with the same topic to add more variables and period of research in order to achieve better results.

C. Limitation of The Research

This research has been cultivated and performed in accordance with scientific procedures, but of course still has limitations, among others:

1. Factors affecting government external debt used in this study include exchange rate of rupiah to US dollar, government expenditure, and GDP (economic growth). While there are many other factors that must be researched and have a large likelihood to give effect to the dependent variable used.
2. The limited use of data and incomplete literature that makes this research still has many shortcomings both in terms of analysis of research results and explanations of each variable.