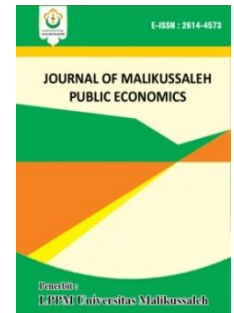


## THE EFFECT OF GOVERNMENT SPENDING, DOMESTIC INVESTMENT AND FOREIGN DEBT ON GROSS DOMESTIC PRODUCT IN INDONESIA

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### ARTICLE INFORMATION ABSTRACT

**Keywords:** *Government Expenditure, Domestic Investment, Foreign Debt, Gross Domestic Product*

*This study aims to analyze the effect of government spending, domestic investment and foreign debt on gross domestic product in Indonesia. The independent variables in this study are Government Expenditure, Domestic Investment and Foreign Debt while the dependent variable is Gross Domestic Product. The data used in this research is secondary data for the period 1998-2021. The analytical model used in this study is the multiple linear regression model with the Ordinary Least Square (OLS) method. Based on the results of the study, it shows that government spending and foreign debt have a significant and significant effect on gross domestic product in Indonesia while domestic investment has no effect and is not significant on gross domestic product in Indonesia while simultaneously government spending, domestic investment and foreign debt jointly affect the gross domestic product in Indonesia. The test results for the coefficient of determination show that there is a relationship between the independent variables and the dependent variable in this study of 98.57%, which means that the other 01.42% is influenced by other variables outside of this study.*

### 1. INTRODUCTION

A quantitative measure that reflects the progress or development of a country's economy is the gross domestic product. Gross domestic product itself means increased activity in the economic sector which results in increased products or services produced and is accompanied by increased welfare and prosperity in society Sukirno in Andriani et al., (2021).

GDP is the overall value in the form of product output and final service output that has been produced by economic activity in a country in a period of 1 year also includes the results of production and services by the country's own companies and foreign residents who live and reside in the country concerned and are expressed

based on market prices Latumerissa in Andriani et al., (2021).

Gross Domestic Product is created by various factors of production originating from within and outside the country. Production factors from within the country are in the form of Domestic Investment (PMDN) and Government expenditure while from abroad there is Foreign Debt.

Government expenditure is part of fiscal policy. According to Sadono Sukirno in Bawinti et al (2018), it is a government action to regulate the course of the economy by determining the amount of government revenue and expenditure each year which is reflected in the State Budget (APBN) document for the national and Regional Budget (APBD) for the region / region.

According to Tambunan in Humaini et al., (2017) Investment is a crucial factor for the continuity of the economic development process (sustainable development), or long-term gross domestic product. With production activities, employment opportunities are created and people's income increases, which in turn creates / increases market demand.

In the course of economic development in developing countries such as Indonesia, the source of financing for economic development that is often used is foreign debt. According to Yustika in Andriani et al. (2021), an instrument that is very common and accepted as the best alternative choice for mandating infrastructure development in developing countries is foreign debt. The economy of a country really needs the role of foreign debt in order to help the production process in the country.

**Table 1. GDP, Government Spending, Domestic Investment (DI) and Foreign Debt**

Year	GDP (Billion USD)	Government Spending (Milyar USD)	DI (Juta USD)	Foreign Debt (Juta USD)
2017	950,021	92,630	262,350	353,564
2018	999,178	94,025	328,605	379,589
2019	1049,330	98,575	386,498	402,106
2020	1027,661	101,086	413,535	417,532
2021	1065,594	108,449	447,064	415,100

From the table above, in general, it can be seen that in 2017-2019 Indonesia's GDP continued to increase and in 2020 GDP experienced a significant decline of 1027.6 billion US dollars, in 2020 Indonesia faced challenges and obstacles in the economy. The challenges and obstacles to economic problems that Indonesia is facing are the uncertainty and slowdown in the global economy, the current account deficit, and the trade balance deficit, slowing credit growth, slowing foreign investment and domestic investment, and also the COVID-19 pandemic outbreak.

Government spending in 2017 amounted to 92.6 billion US dollars and continued to experience a significant increase in 2021 Government spending amounted to 108.4 billion US dollars. The realization of state expenditure reached 108.4 billion USD or an increase of 7.4 percent from the realization in 2020, in line with

the countercyclical APBN policy strategy taken by the Government to deal with the emergence of delta variants in the second half of 2021 and to boost national gross domestic product amid the ongoing impact of the Covid-19 pandemic.

The realization of domestic investment during the 2017-2021 period has always increased. In 2017, domestic investment amounted to 262.3 million US dollars. The increase in the value of domestic investment was also followed by an increase in the number of projects that absorbed the investment value. Investment realization in 2021 increased by 9 percent (year-on-year / yoy) compared to 2020, which was valued at 413.5 million US dollars. Domestic Investment (PMDN) is considered capable of encouraging a country's economy to develop very well, where if investment that occurs in the country increases, it will increase gross domestic product (Jufrida et al., 2016).

So far, there have been many studies on gross domestic product in Indonesia that are related to government spending, domestic investment and foreign debt. In 2019 Mutia et al with the research title "The Effect of Money Supply and Government Expenditure on Indonesia's Gross Domestic Product (GDP)", obtained research results where partially the variables of Money Supply and government spending have a positive and significant effect on Indonesia's Gross Domestic Product. In research conducted by Tamba (2020) with the title "Analysis of the Effect of Government Expenditure, Domestic Investment, and Foreign Investment on Indonesia's Gross Domestic Product (GDP)" found that partially only government spending has a positive effect, while domestic investment and foreign investment have a negative effect.

Based on the results of previous studies, it can be concluded that there are different results between each variable, in this case the authors are interested in further examining how the influence of government spending, domestic investment, and foreign investment using data from the latest year, namely from 1998 to 2021 and comparing it with the results of previous studies based on phenomena that occurred in the latest year, this is the background of the author's interest in researching and studying the "Effect of Government Expenditure, Domestic Investment (PMDN) and Foreign Debt on Gross Domestic Product (GDP) in Indonesia".

## 2. LITERATURE OVERVIEW

### Gross Domestic Product

Gross domestic product is defined as an increase in the ability of an economy to produce goods and services. In other words, gross domestic product refers more to quantitative change and is usually measured using Gross Domestic Product (GDP), income or output per capita. Gross Domestic Product (GDP) is the total market value of final goods and services produced in an economy during a certain period of time, usually 1 year Nanga in Mutia et al., (2019).

According to Kusumawardhani et al. (2012), a country's economic growth can be indicated by an increase in the country's GDP. The size of GDP is influenced by various factors, including household consumption (C), investment (I), government spending (G), and net exports (X-M). One of the components that determine the size of GDP is Investment (I).

According to the Central Bureau of Statistics (2021), GDP data is one of the macroeconomic indicators that can show the condition of the country's economy every year. The benefits that can be obtained from this data include the following:

- a. GDP at current prices (nominal) shows the ability of economic resources produced by a country. A large Gross Domestic Product value indicates a large economic resource capability, and vice versa.
- b. GDP at constant (real) prices can be used to show the rate of growth of the economy as a whole or each sector from year to year.
- c. The distribution of GDP at current prices by business field shows the structure of the economy on the role of each business field in a country. Business fields that have a large role show the economic base of a country.
- d. GDP per capita at current prices shows the value of Gross Domestic Product per head or per one person of the population.
- e. GDP per capita at constant prices is useful for knowing the real economic growth per capita of a country's population.

GDP in this case the output of goods and services in the economy depends on the number of inputs, namely factors of production and the ability to convert inputs into outputs reflected in

the production function. The production function in neo-classical theory is  $Y = f(K, L)$  Keynes with the theory of national income (GDP) which can be simplified into an equation (Fauziana et al 2014).

$$Y = C + I + G$$

Where:

Y = GDP,

C = consumption,

I = investment,

G = government spending

### Government Expenditure

Government spending is to finance government administration and partly to finance development activities. Muhammad Efendi in Mutia et al (2019) states that government spending has an effect on GDP growth in Indonesia. According to him, changes in the real volume of government spending and changes in government spending itself are influenced by changes in wage levels and prices.

According to Sukirno in Mutia et al., (2019) the factors that cause the amount of government spending to be carried out in a period include:

- 1) Projection of the Amount of Tax Received In preparing the budget, the government must first make a projection of the amount of tax it will receive. The more taxes that can be collected, the more government spending will be done.
- 2) Economic Goals to be Achieved The government plays an important role in the economy. Its activities can manipulate/organize economic activity in the desired direction. Some important objectives of government activities are to overcome the problem of unemployment, avoid inflation and accelerate economic development in the long run. To fulfill these objectives, the government often spends far more money than the revenue obtained from taxes.
- 3) Political and Security Considerations Political considerations and the stability of the country have always been an important objective in preparing government budgets. Political turmoil, disputes among various groups of people and regions often prevail in various countries in the world. Such circumstances will lead to a huge increase in government expenditure.

### Investment

According to Sukirno in Sukma Jayanti (2019), Investment activities enable a society to continuously increase economic activity and

employment opportunities, increase national income and increase the level of prosperity of the community. This role comes from three important functions of investment activities, namely:

- Investment is one component of aggregate expenditure, so an increase in investment will increase aggregate demand, national income and employment opportunities.
- The increase in capital goods as a result of investment will increase production capacity.
- Investment is always followed by technological development.

Domestic Investment (PMDN) is an investment activity to conduct business in the territory of the Republic of Indonesia carried out by domestic investment using domestic capital. Domestic investment is also part of the wealth of the Indonesian people including rights and objects both owned by the state and the private sector Tamba (2020).

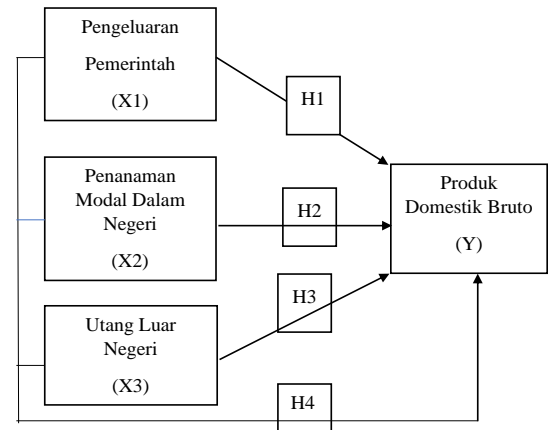
### External Debt

Foreign debt can be defined based on various aspects. Based on the material aspect, foreign loans are capital inflows from abroad into the country that can be used as a capital enhancer in the country. Based on the formal aspect, foreign loans are receipts or gifts that can be used to increase investment to support gross domestic product, while based on the functional aspect, foreign loans are an alternative source of financing needed in development Triboto in Sucipto & Puspitasari (2016).

In dependency theory, it explains that foreign debt in the short term enlarges gross domestic product but in the long term will hamper gross domestic product. This is because in the long run the debt will be greater than the ability to pay the recipient country and the cost of foreign debt interest is expected to urge domestic and foreign investment and ultimately inhibit growth (Yuniarti in Saputra et al., 2019).

### Conceptual Framework of Research

In this study, the framework consists of 3 variables that affect Gross Domestic Product (GDP) in Indonesia, including Government Expenditure, Foreign Direct Investment and Foreign Debt. The framework can be seen from the following scheme:



**Figure 1. Conceptual Framework**

It can be seen from the conceptual framework that there is a relationship between each and also a joint or simultaneous relationship between the independent variables (the Government Expenditure variable as X1, the Domestic Investment variable as X2, the Foreign Debt variable as X3) on the dependent variable, namely, the GDP as Y.

### 3. RESEARCH METHODOLOGY

In this study, the object of research is Government Expenditure, Domestic Investment, Foreign Debt to Gross Domestic Product (GDP). Government Expenditure, Domestic Investment, and Foreign Debt as independent variables, while GDP is the dependent variable. The location of this research is in Indonesia.

#### Type and Source of Data

The research used in this study is quantitative research, this study uses time series data. Time series data is data that is chronologically arranged according to time used to see the influence in a certain time span (Kuncoro, 2007).

This study uses secondary data for 1998-2021 obtained from institutions or agencies including the Central Statistics Agency (BPS) and the World Bank. The data used are:

- Gross Domestic Product (GDP) data
- Government Expenditure Data
- Data on Domestic Investment (PMDN)
- External debt data

#### Data Collection Technique

The data collection technique used in this research is the documentation method, namely by reading, copying and processing data or records written in related agencies, namely, from BPS and the World Bank. The data obtained in the data that has to do with the problems that exist in this study,

namely data on Gross Domestic Product, Government Expenditure, Domestic Investment, Foreign Debt. The currency used in this study is the currency in US Dollars, this aims to be the same for each type of currency used between variables X1, X2 and X3.

### Operational Definition of Variables

#### 1. GDP (Y)

Gross Domestic Product (GDP) as a measure of Indonesia's real income is defined as the value of goods and services produced by all economic units accumulated in a certain period. The GDP coverage used is GDP at constant prices (ADHK). GDP data is obtained from the World Bank 1998-2021. The units of the GDP variable are expressed in Billions of USD / Year.

#### 2. Government Expenditure (X1)

Government expenditure is the total expenditure or expenditure of the Indonesian government, which is contained in the APBN for central expenditure and APBD for regional expenditure. Government expenditure data is obtained from the World Bank 1998-2021 and is expressed in Billion USD / Year.

#### 3. Domestic Investment (X2)

Domestic Investment (PMDN) is the total of all investments in Indonesia made by domestic investors, both individuals and companies, calculated based on the real economic sector in each year. PMDN data is obtained from the Central Bureau of Statistics for 1998-2021 and is expressed in Million USD / Year.

#### 4. Foreign Debt (X3)

Foreign Debt is any state revenue both in the form of foreign exchange and in the form of goods and / or services obtained from foreign lenders that must be repaid under certain conditions. External Debt data is obtained from the World Bank in 1998-2021 and is expressed in Million USD / Year.

### Data Analysis Method

This study uses a multiple regression analysis model with the following research model formulation:

$$PDB = \alpha + \beta_1 PP + \beta_2 PMDN + \beta_3 ULN + \mu$$

Where:

GDP	= Gross Domestic Product
PP	= Government Expenditure
PMDN	= Domestic Investment
ULN	= Foreign Debt
$\alpha$	= Constant

$\beta_1, \beta_2, \beta_3$  = Explanatory coefficient of each input parameter value

$\varepsilon$  = Error term

### Normality Test

The normality test intends to test whether the residual values in the regression model are normally distributed or not. A regression model is said to be good if it has a normal or near normal data distribution. Normality statistical test models that can be used include Chi-Square, Kolmogorov Smirnov, Lilliefors, Shapiro Wile, and Jarque-Bera (JB-Test).

In this study, researchers used the Jarque-Bera (JB Test) method. This test is performed by comparing the calculated Jarque-Bera (JB) probability with an alpha level of 0.05 (5%). If the calculated JB probability is greater than 0.05, it can be concluded that the residuals are normally distributed and vice versa, if the value is smaller, there is not enough evidence to state that the residuals are normally distributed (Hasan, 2008).

### Classical Assumption Test

In connection with the use of the OLS method, to produce a more valid value of the estimated model parameters, the classical assumption model must be tested. The classic assumption tests used are:

#### Autocorrelation Test

Autocorrelation is the relationship between the residuals of one observation and the residuals of another observation. Autocorrelation is easier to arise in time series data. Because by its nature, current data is influenced by previous data. If the data being analyzed contains autocorrelation, it causes the estimator to be BLUE, no longer BLUE. This can be done by using the Breusch-Godfrey test, which is commonly referred to as the LM (Langrange Multiplier) test. The test steps are to compare  $Obs * R^2$  with  $X^2$  at certain degrees of freedom and degrees of confidence. If  $Obs * R^2 < X^2$  table then  $H_0$  is rejected (there is autocorrelation) or if the probability value  $> 0.05$  or  $\alpha = 5$  percent, then there is no autocorrelation (Winarno, 2007: 5.25).

#### Heteroscedasticity Test

Heteroscedasticity is a condition where the confounding factors do not have the same variance (Winarno, 2007: 5.8). In this study, the method used to determine the problem of heteroscedasticity is the white test. The assumption used is if the value of  $\chi^2$  count ( $Obs * R^2$ )  $< \chi^2$  table or the confounding variables and the regression equation have the same variance then the white test has no heteroscedasticity problem. Or it can be known by

looking at the probability value, if the probability value  $\text{Obs} \cdot R\text{-Squared} > 0.05$  or  $\alpha$  5%, then there is no heteroscedasticity problem.

### **Multicollinearity Test**

The presence of multicollinearity in the regression equation model used will result in estimation inaccuracies, then lead the conclusion to accept the null hypothesis. Multicollinearity aims to test whether there is a high or perfect correlation between the independent variables contained in the regression model.

A good regression model should not have a correlation between the independent variables. Multicollinearity can be seen from the Variance Inflation Factors (VIF). VIF tries to see how the variance of an estimator increases if there is multicollinearity in an empirical model. If VIF tries to see how the variance of an empirical model. If the VIF of a variable exceeds 10, then a variable is said to be highly correlated (Gujarati, 2012).

### **Statistical Test**

This test is used to determine whether the independent variables individually and together have a significant effect on the dependent variable. This statistical test includes the t test, F test and the coefficient of determination ( $R^2$ ).

### **Individual Significance Test (t-Statistic Test)**

This test is used to see the significance of the effect of independent variables individually on the dependent variable with other variables constant. To test the effect of each independent variable, the calculated t value must be compared with the t table value.

The t table value can be obtained by looking at the distribution table for  $\alpha = 0.05$  and degree  $n-k$ . Then in this test the following hypothesis is carried out:

$H_1: \beta_i \neq 0$  (It is suspected that the independent variable affects the dependent variable) Apart from using the method above, the t-test can also be done by Quick Look, namely: see the probability value and the degree of confidence specified in the study or see the t-table value with the t-count. If the probability value is  $<0.05$  or  $\alpha = 5$  percent and if the t-count value is higher than the t-table, it means rejecting  $H_0$  and accepting  $H_a$  and vice versa. This indicates that the independent variable individually affects the dependent variable and vice versa (Kuncoro, 2003: 219).

### **Simultaneous Significance Test (F-Statistic Test)**

This test will show the relationship or influence of the independent variables together on the dependent variable. So in this test the following hypothesis is carried out:

- 1) If  $F\text{-count} < F\text{ table}$ , then  $H_0$  is accepted, which means that together the independent variables are not significantly influenced by the dependent variable.
- 2) If  $F\text{-count} > F\text{ table}$ , then  $H_1$  is rejected, which means that together the independent variables significantly affect the dependent variable.

Apart from the above method, the F-test can also be done by Quick Look, namely: see the probability value and the degree of confidence specified in the study or see the F-table value with the F-count. If the probability value  $<0.05$  or  $\alpha = 5$  percent, it means rejecting  $H_0$  and accepting  $H_1$  and vice versa. This indicates that the independent variables jointly affect the dependent variable and vice versa (Kuncoro, 2003: 219).

### **Coefficient of Determination ( $R^2$ )**

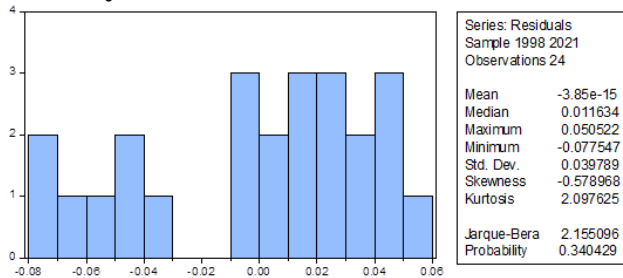
The coefficient of determination is the ability of the model to explain the relationship between variables (Winarno, 2007: 4.5). The coefficient of determination is between zero and one, the closer the number to one, the better the regression line because it is able to explain the actual data, on the other hand, the closer the number to zero, the less good regression line we have. The coefficient of determination is a statistical concept, so a regression line is good if the  $R^2$  value is high.

## **4. RESEARCH RESULTS AND DISCUSSION**

### **Descriptive Analysis of Research Data**

The data used in this study uses secondary data obtained from the Central Statistics Agency (BPS) of the Republic of Indonesia, the World Bank, and the regression model used in this study is the Multiple Linear Regression model where the object under study is in Indonesia.

## Normality Test



Sumber: (Eviews 10 Data Diolah, 2022)

**Figure 2. Normality Test**

Based on the figure above, the normality test uses the Jarque-Bera (JB-Test) method. And the test results produce a probability  $> 0.05$  ( $0.340429 > 0.05$ ). Based on these results, it can be concluded that the regression model has met the assumption of normality.

## Classic Assumption Test

**Table 2. Autocorrelation Test**

F-statistic	0.438364	Prob. F(2,17)	0.6522
Obs*R-squared	1.127988	Prob. Chi-Square(2)	0.5689

Source: (Eviews 10 Data Diolah, 2022)

The table above shows the Prob. Chi-Square (2) which is the p value of the Breusch-Godfrey Serial Correlation LM test of 0.5689. The value of Prob. Chi-Square (2) is greater than the significance level of 5% or 0.05 so it can be concluded that there is no autocorrelation problem in the regression model to be used.

**Table 3. Heteroscedasticity Test**

F-statistic	1.220107	Prob. F(8,15)	0.3517
Obs*R-squared	9.460922	Prob. Chi-Square(8)	0.3049
Scaled explained SS	3.605743	Prob. Chi-Square(8)	0.8908

Source : *Eviews* 10 diolah tahun 2022

In table 3, it can be seen that the p value indicated by the Prob. Chi-Square has a value greater than the 5% or 0.05 significance level ( $0.3049 > 0.05$ ). This indicates that there is no heteroscedasticity problem in the regression model used.

**Table 4. Multicollinearity Test**

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.538670	20283.38	NA
PP	0.000302	2380.217	3.271899
PMDN	0.000435	732.9944	6.469748
ULN	0.003900	34976.25	9.111299

Source : Eviews 10 processed in 2022

Based on the table above, it can be seen that none of the independent variables has a VIF value of more than 10. So it can be concluded that this study is free from multicollinearity.

## Multiple Linear Regression Analysis

**Table 5. Multiple Linear Regression Analysis Test Results**

Dependent Variable: PDB

Method: Least Squares

Date: 12/19/22 Time: 00:32

Sample: 1998 2021

Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.48587	1.240432	9.259578	0.0000
PP	0.202229	0.017378	11.63693	0.0000
PMDN	0.007909	0.020849	0.379367	0.7084
ULN	0.408939	0.062452	6.548036	0.0000

R-squared	0.987603	Mean dependent var	27.18092
Adjusted R-squared	0.985743	S.D. dependent var	0.357356
S.E. of regression	0.042669	Akaike info criterion	-3.319696
Sum squared resid	0.036412	Schwarz criterion	-3.123353
Log likelihood	43.83635	Hannan-Quinn criter.	-3.267606
F-statistic	531.0974	Durbin-Watson stat	0.755634
Prob(F-statistic)	0.000000		

Source : *Eviews* 10 diolah tahun 2022

From the table above, the results of multiple linear regression analysis can be interpreted as follows:

$$Y = 11.48587 + 0.202229PP + 0.007909PMDN + 0.408939ULN$$

### Interpretation:

1. Based on the regression equation, it shows that the constant value is 11.48587, which means that if the variables of government spending, domestic investment, and foreign debt are constant = (0) or fixed, the gross domestic product will increase constantly by 11.48587 billion US dollars.
2. The coefficient value of the government expenditure variable is 0.202229, which means that if government spending increases by 1 billion US dollars, the gross domestic product will increase by 0.202229 billion US dollars, assuming that the domestic investment and foreign debt variables are considered constant.
3. The coefficient of the domestic investment variable has a value of 0.007909, which means that if the amount of domestic investment increases by 1 million US dollars, the amount of gross domestic product will increase by 0.007909 billion US dollars, assuming that the variables of government spending and foreign debt are considered constant.
4. The coefficient of the foreign debt variable has a value of 0.408939, which means that if foreign debt increases by 1 million US dollars, the amount of gross domestic product decreases by 0.408939 billion US dollars, assuming that the variables of domestic investment and government spending are considered constant.

### Hypothesis Testing

**Table 6. Partial Test Results (t test)**

Variabel Bebas	t- Statistik	t-Tabel	Prob	Keterangan
Pengeluaran Pemerintah	11.63693	1.72472	0.0000	Signifikan
Penanaman Modal Dalam Negeri	0.379367	1.72472	0.7084	Tidak Signifikan
Utang Luar Negeri	6.548036	1.72472	0.0000	Signifikan

Source: (Eviews 10 Data Diolah, 2022)

Based on table 6 above, it shows that the t-count value of government spending is 11.63693 greater than the t-table, namely 1.72472 ( $11.63693 > 1.72472$ ), meaning that government spending has a positive and significant effect on Gross Domestic Product in Indonesia. It can be seen from the probability value smaller than alpha 0.05 ( $0.0000 < 0.05$ ).

Domestic investment variable is 0.379367 smaller than 1.72472 ( $0.379367 < 1.72472$ ) means that domestic investment has no effect and is not significant to Gross Domestic Product in Indonesia. It can be seen from the probability value smaller than alpha 0.05 ( $0.7084 > 0.05$ ).

The foreign debt variable is 6.548036 greater than 1.72472 ( $6.548036 > 1.72472$ ), meaning that foreign debt has a positive and significant effect on Gross Domestic Product in Indonesia. It can be seen from the probability value greater than alpha 0.05 ( $0.0000 > 0.05$ ).

**Table 7. Simultaneous Test Results (F Test)**

F-Statistik	F-Tabel	Prob	Keterangan
531.0974	3.10	0.000000	Signifikan

Source: (Eviews 10 Data Diolah, 2022)

Because F statistics is greater than F table, it means that government spending, domestic investment and foreign debt together affect Gross Domestic Product.

**Table 8. Determination Coefficient Test Results**

R-squared	0.987603	Mean dependent var	27.18092
Adjusted R-squared	0.985743	S.D. dependent var	0.357356
S.E. of regression	0.042669	Akaike info criterion	3.319696
Sumsquared resid	0.036412	Schwarz criterion	3.123353
Log likelihood	43.83635	Hannan-Quinn criter.	3.267606
F-statistic	531.0974	Durbin-Watson stat	0.755634
Prob(F-statistic)	0.000000		

Source: (Eviews 10 Data Diolah, 2022)

From the table above, it can be seen that the Adjusted R-Squared value in this study is 0.985743. This means that the relationship between the independent variable and the dependent variable in this study is 98.57%.

### Testing the Correlation Coefficient (R)

The correlation coefficient is a value that indicates the strength or absence of a linear relationship between two variables. The correlation coefficient value varies from -1 to +1, an r value close to -1 or +1 indicates a strong relationship between the two variables, and an r value close to 0 indicates a weak relationship between the two variables. In this study, the correlation value (r) or R-Squared is 0.987603 or 98.76, so in this study it



can be concluded that there is a strong correlation relationship between the dependent variable and the independent variable.

## **Discussion**

### **Relationship between Government Expenditure and GDP**

Based on the results of the data processing above, it can be seen that the government expenditure variable has an effect on gross domestic product in Indonesia because the probability value of 0.0000 is smaller than the significant level of 0.05, the coefficient of government spending is 0.202229.

The results of this study are in line with the research of Mutia et al., (2019) based on the results of the study showed that Government Expenditure has a significant effect on Indonesia's Gross Domestic Product. Government spending on social and economic overheads provides employment opportunities, raises incomes, and increases economic capacity. If the state begins to carry out public works such as the construction of highways, railways, and so on, those jobs will provide employment opportunities to millions of unemployed people. Such provision helps increase production, trade and business ventures. From the results of the above statement, it can be concluded that government spending affects Gross Domestic Product.

### **Relationship of Domestic Investment to GDP**

Based on the results of the data processing above, it can be seen that the domestic investment variable has an effect and is not significant on Gross Domestic Product in Indonesia due to its probability value of 0.0045 which is smaller than the significant level of 0.05, the Domestic Investment coefficient is 0.049494.

The results of this study are in line with research conducted by Kambono & Marpaung (2020) which explains that Domestic Investment (PMDN) has no significant effect on economic growth. This is due to uneven economic growth, and there is still an economic gap, the country's sluggish economy is avoided by state planners. For this reason, pro-investment economic policy formulations are encouraged to continue to increase in order to overcome the problem of economic stagnation or sluggishness so that economic growth continues. Improvement Increased investment will ensure the continuity of economic development, absorb labor and reduce

poverty, so that there is an overall and equitable improvement in the level of people's welfare.

### **Relationship of Foreign Debt to GDP**

Based on the results of the data processing above, it can be seen that the Foreign Debt variable has a significant effect on gross domestic product because the probability value of 0.0000 is smaller than the significant level of 0.05, the Foreign Debt coefficient is 0.408939.

The results of this study are in line with research conducted by Andriani et al., (2021) which states that foreign debt has a significant positive effect on Indonesia's GDP, which means that when foreign debt increases, Indonesia's GDP will also increase. This is because the government or state as well as the private sector uses foreign debt to support the country's economic development, including to support the economy and the state budget deficit which is unable to finance development.

## **5. CLOSING**

### **Conclusion**

This study is intended to examine the influence of government expenditure variables, domestic investment and foreign debt in Indonesia. Based on the results of data analysis and discussion that has been done, the following conclusions can be drawn:

1. Partially, government spending has a positive and significant effect on Gross Domestic Product in Indonesia.
2. Partially, domestic investment has no effect and is not significant to Gross Domestic Product in Indonesia.
3. Partially, foreign debt has a positive and significant effect on Gross Domestic Product in Indonesia.
4. Simultaneously Government Spending, Domestic Investment, and Foreign Debt have a significant effect on Gross Domestic Product in Indonesia.

### **Suggestions**

Based on the results of the discussion and conclusions that have been given, the following suggestions can be given:

1. The government should further increase government spending in this case capital expenditure. Government spending is more focused on infrastructure and maintenance of public facilities in order to launch economic activities which will then increase GDP growth. In addition, government spending should not

exceed its function so that the government does not raise taxes and borrow from the private sector so that the private sector can increase investment and create jobs to increase the value of GDP and improve people's welfare.

2. Foreign debt is one of the sources of state funding, therefore it is expected that the government can use financing in increasing economic growth and development. So the increase in foreign debt in a certain time can increase and encourage gross domestic product on the condition that the foreign debt can be properly regulated, both the lending process and its return.
3. For further research, it is recommended that the same research be carried out using other variables that affect Indonesia's Gross Domestic Product apart from the variables used in this study, adding years of analysis and using different research methods to enrich science.

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