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The Influence of Government External Debt on Indonesia's Economic Growth

Romi Hidayat
Institut Agama Islam Negeri Kerinci, Indonesia
romi74997@gmail.com

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Abstract
This study aims to analyze the impact of government external debt on Indonesia's economic growth. The research is grounded in the phenomenon of increasing dependence among developing countries, including Indonesia, on external financing sources as a means to support national development funding. However, the relationship between external debt and economic growth remains a subject of academic debate, as empirical findings on this issue tend to be contradictory. The study employs a quantitative approach using time series data. The data utilized are secondary in nature, obtained from official reports on Indonesia's external debt. Data analysis was conducted using SPSS version 24, applying classical assumption tests and multiple linear regression analysis. The results indicate that the external debt variable has a significant effect on Indonesia's economic growth. This is evidenced by a regression coefficient of 13.280 and a significance level of 0.000, which is below the standard significance threshold of $\alpha = 0.05$. Accordingly, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This suggests that government external debt makes a substantial contribution to the dynamics of national economic growth. The study affirms that in the Indonesian context, external debt can function as a supportive instrument for economic development, provided it is managed prudently and allocated toward productive sectors that have a direct impact on long-term economic growth.

Keywords: *External Debt; Indonesia Economy; Economic Growth*

Introduction

Before the onset of the monetary crisis in Southeast Asia, Indonesia was categorized as a developing country. Economic and socio-political stability were severely disrupted from the early stages of the economic crisis, which began with the depreciation of the rupiah against the US dollar in mid-1997. Indonesia also carried a problematic history of debt. A lack of public trust—particularly in the government's ability to manage the economy—emerged in response to this situation (Qadri et al., 2022).

In several cases, developing countries require foreign debt to meet their investment needs. An imbalance in the balance of payments arises due to insufficient domestic savings to fulfill economic development objectives. Ideally, domestic funds should be used to finance investment needs. However, due to the limited reserves available domestically, foreign bonds have become a preferred option for public authorities to cover the shortfall in domestic investment capital. Consequently, a country's economic development becomes increasingly dependent on external borrowing (Marlianah et al., 2019).

Foreign debt is utilized to finance government budgets and stimulate economic growth. National consumption is sustained through foreign obligations to support fiscal operations, particularly those deemed productive. In this way, such obligations are intended to facilitate economic development. Debt is typically used to address shortfalls in planned expenditures. In turn, economic growth contributes to job creation and poverty alleviation (Junaedi et al., 2022).

Debt dependency theory, also referred to as the *debt overhang theory*, posits that when the level of external debt rises significantly, economic growth is likely to decelerate. In the long run, the total debt burden may exceed the debtor's repayment capacity, and the anticipated interest obligations can constrain both domestic and foreign investment, ultimately inhibiting economic growth (Qadri et al., 2022). Meanwhile, the Indonesian government has sought to offset deficits in national income and planned public expenditures through the adoption of temporary foreign obligations to support daily operations and critical infrastructural improvements.

However, government external debt has been shown to pose long-term economic risks for Indonesia, including adverse effects on the rupiah's exchange rate (Ulfa & Zulham, 2017). During the economic crisis, both public and private external debt denominated in rupiah increased significantly. As a result, to repay maturing external debt, the Indonesian government was compelled to accumulate additional foreign debt (Hakim & Rahmanungsih, 2021).

Table 1. Development of Indonesia's Foreign Debt

Year	Government (million USD dollars)
2011	225,375
2012	252,364
2013	266,109
2014	293,328
2015	310,73
2016	320,006
2017	352,469
2018	375,43
2019	403,563
2020	416,935
2021	414,978
2022	394,574

Source: Indonesian External Debt Census (SULNI) data

Based on the data above, it is evident that Indonesia's external debt has continued to grow from the New Order era to the present day—a deeply concerning reality. Nevertheless, it is also a fact that the Indonesian economy has continued to grow steadily from year to year.

Table 2. Development of Indonesia's Foreign Debt and Economic Growth (GDP)

Year	X	Y
	Economic Debt	Economic Growth (GDP)
2011	225,375	7.831.726,0
2012	252,364	8.615.704,0
2013	266,109	9.546.134,0
2014	293,328	10.569.705,0
2015	310,73	11.526.332,0
2016	320,006	12.401.728,0
2017	352,469	13.589.825,0
2018	375,43	13.589.825,0
2019	403,563	14.838.756,0
2020	416,935	15.832.657,0
2021	414,978	15.438.017,0
2022	394,574	16.970.789,0

External debt serves as a significant source of development financing for developing countries. However, research on the impact of debt on economic growth has produced contradictory findings. Some studies conclude that while external debt can act as a driver of economic growth for debtor countries, excessive indebtedness may, in fact, hinder economic performance (Muhaimin, 2014). Based on this premise, the present study focuses its analysis on the impact of government external debt on Indonesia's economic growth.

Method

This study employs a quantitative method to examine the impact of government external debt on Indonesia's economic growth. In accordance with the research objectives, the data collected are analyzed using a quantitative approach tailored to the relevant scientific instruments. Quantitative research emphasizes

theory testing by measuring research variables numerically and analyzing the data through statistical techniques to test hypotheses. This study utilizes secondary data in the form of time series spanning from 2011 to 2022.

Discussion

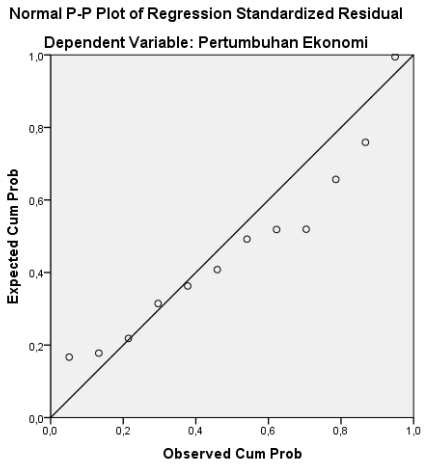
This study utilizes SPSS version 24 for data analysis. The researcher focuses on examining the effect of external debt on economic growth through classical assumption tests and hypothesis testing. To assess normality, two methods are employed: graphical analysis and the One-Sample Kolmogorov-Smirnov test.

Classical Assumption Test

Normality Test

The normality of residuals in this study is tested using the P-P plot (normal probability plot). Residuals are considered normally distributed if the data points on the plot closely follow or align with the diagonal line. Conversely, if the data points deviate significantly from the diagonal or if the histogram does not exhibit the shape of a normal distribution, the regression model fails to meet the assumption of normality.

Figure 1. Normality Test P-P plot



Source: SPSS Output (Data Processed 2022)

In this pattern, the distribution is considered normal because the P-P Plot normality test produces a diagonal line. In addition to using graphical techniques to assess normality, the One-Sample Kolmogorov-Smirnov test is also applied. This standard test determines whether the data follow a normal distribution based on the

significance value. If the significance level is greater than α = 0.05, the residuals are deemed to be normally distributed. Conversely, if the significance level is below α = 0.05, the residuals cannot be considered normally distributed.

Table 3. Normality Test

One-Sample Kolmogorov-Smirnov Test			
		External Debt	Economic Growth
N		12	12
Normal Parameters a,b	*Mean*	335,4884	12562599,8300
	Std. Deviation	67,04096	2981980,43000
Most Extreme Differences	*Absolute*	,144	,135
	Positive	,112	,094
	Negative	-,144	-,135
Test Statistic		,144	,135
Asymp. Sig. (2-tailed).		,200c,d	,200c,d
a. Test distribution s Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. This s a lower bound of the true significance.			

Source: SPSS Output 2022

The significance value is indicated by *Asymp. Sig. (2-tailed)*, which is 0.200 as shown in Table 4.1. Since this value is greater than 0.05, based on the decision rule for the One-Sample Kolmogorov-Smirnov normality test, it can be concluded that the data are normally distributed.

Hypothesis Testing

Multiple Linear Regression Analysis

After all classical assumptions were tested and confirmed, multiple linear regression analysis was employed in this study. The purpose of using multiple linear regression is to examine the relationship between economic growth and the influence of external debt as the dependent variable.

Tabel 4. *Coefficientsa*

Model	*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
	B	*Std.*	*Beta*		

			Error			
1	*(Constant).*	-1954012,214	1112966,265		-1,756	,110
	External Debt	43270,084	3258,351	,973	13,280	,000
a. *Dependent Variable*: Economic Growth						

The multiple linear regression equation can be formulated as follows: $Y=\alpha + \beta 1X + \varepsilon$
Where:

- Y: Economic Growth
- X_1: Foreign Debt
- α: Constant
- $\beta 1 \beta 2$: Regression Coefficient (Slope Coefficient)
- **ε**: Error term

Based on the output of Table 4 on the multiple linear regression test, the resulting regression equation is as follows: Y= -1954012,214 +43270,084X +ε
From the above regression equation, the regression coefficient of foreign debt is 43270,084. This indicates that a 1% increase in foreign debt would result in a decrease in economic growth by 43270,084 units. The explanation of this test result is as follows:
H_1: Foreign debt has an effect on economic growth

The foreign debt variable has a significance value of 0,000, which is lower than the significance level (α = 0.05) as shown in the multiple linear regression coefficient test table. Since this value is less than α = 0,05 it indicates that the foreign debt variable has a statistically significant effect on economic growth.
Partial Test (t-test):

Through hypothesis testing procedures, a significance test can be conducted to determine the influence of independent variables on the dependent variable. According to Riduwan (2018), this can be carried out using the following decision criteria by comparing the t-value from the SPSS output with the critical value at α = 5%:

- If the significance value (sig) < 0.05 or the calculated t-value (t_calculated) > t_table, then the independent variable (X) has a significant effect on the dependent variable (Y).
- If the significance value (sig) > 0.05 or t_calculated < t_table, then the independent variable (X) does not have a significant effect on the dependent variable (Y).

Table 5. Partial Test

Coefficientsa						
Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
	(*Constant*).	-1954012,214	1112966,265		-1,756	,110
	External debt	43270,084	3258,351	,973	13,280	,000
a. *Dependent Variable*: Economic Growth						

Source: SPSS Output, 2022

Table 6. Partial Test

No	*Variable*	t_{hitung}	t_{tabel}	*Sig*	Description
	External debt	13,280	1,833	0,000	Influential

Source: *Output SPSS* (2022)

In this study, the < t_{table} value is 1. Based on the results, the following findings were obtained: The influence of external debt ($\mathbf{X_1}$) on economic growth yielded a *t*-statistic of 13.280, which is greater than the *t*-table value of 1.8333, with a significance level of 0.000, which is less than 0.05. This indicates that *t*-calculated > *t*-table and the p-value < 0.05, leading to the rejection of the null hypothesis (H_0) and the acceptance of the alternative hypothesis (H_a). In other words, external debt ($\mathbf{X_1}$) has a statistically significant effect on economic growth (**Y**).

The significance value being less than the significance level α = 5% (0.000 < 0.05) confirms that external debt has a significant impact on economic growth.

Model Feasibility Test (F-Test)

The purpose of the F-test is to determine whether the variables included in the model are jointly capable of explaining the observed phenomenon (Ghozali, 2018). The F-significance value in the *Analysis of Variance (ANOVA)* table is used to conduct this test, with a significance level α = 5% employed in this study.

If the significance value is less than 0.05 (*sig* < 0.05) or the calculated F-value is greater than the F-table value (*F_calculated* > *F_table*), it indicates that the independent variables collectively have a significant influence on the dependent variable. Conversely, if the significance value is greater than 0.05 (*sig* > 0.05) or the calculated F-value is less than the F-table value (*F_calculated* < *F_table*), it indicates that the independent variables do not have a significant simultaneous effect on the dependent variable.

Table 7. *Parsial Test* (T Test)

ANOVAa						
Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
	Regression	92565373500000,000	1	92565373500000,000	176,352	,000b
	Residual	52489066240000,000	10	52489066240000,000		
	Total	97814280120000,000	11			
a. *Dependent Variable*: Economic growth						
b. Predictors: (Constant): External debt						

Source: SPSS Output 2022

Based on the results of SPSS Output can be seen in the following table:

Table 8. F Test

o	Variable	F_{hitung}	F_{tab}	Sig	Description
.	External Debt	176,352	4,256	0,000	Influential

Source: SPSS Output 2022

Based on the results in table above, it is evident that the significance value is 0.000 and the calculated F-value (*F_calculated*) is 176.352, which is greater than the F-table value (*F_table*) of 4.256. This leads to the conclusion that the alternative hypothesis (H_1) is accepted, indicating a significant relationship between the independent variable (X) and the dependent variable (Y).

Conclusion

Based on the results of data analysis, classical assumption testing, and hypothesis testing, it can be concluded that this study has successfully met the requirements of both the classical assumption tests and hypothesis testing over a 12-period timeframe. The findings of the hypothesis test indicate the following: External debt has a significant relationship with economic growth, as the external debt variable has a coefficient value of 13.280 with a significance level of 0.000. Since this p-value is smaller than the significance threshold of α = 5% (0.000 < 0.05), it confirms that external debt significantly influences economic growth. External borrowing can thus contribute to national development by providing additional financial resources from foreign countries. This enables the acceleration of economic growth in alignment with previously established national targets. Based on the findings above, this study is expected to enhance understanding of the Impact of Government External Debt on Indonesia's Economic Growth, thereby contributing to future efforts to support government policies in addressing Indonesia's economic challenges.

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