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THE IMPACT OF FOREIGN DEBT AND INVESTMENT ON INDONESIA'S ECONOMIC GROWTH AND AN ANALYSIS OF INDONESIA'S POLICY FOR LEAVING IMF

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Abstract: *This research aimed to analyze the impact of government foreign debt, private sector foreign debt, Foreign Direct Investment (FDI), and domestic capital investment on Economic Growth. Furthermore, this research also aimed to evaluate Indonesia's policy for leaving International Monetary Fund (IMF). The data analysis technique was a multiple regression using Ordinary Least Square (OLS). This research utilized time series data from 1994 – 2015. The result indicated that the lag of government foreign debt had a positive and significant impact on Indonesia's economic growth. However, private sector foreign debt had no significant impact on economic growth. There was a significant difference in GFD ratio towards real GDP before and after Indonesia left IMF. GFD ratio towards real GDP went down significantly 45,55 to 19,33. Great sources for a debt were three organizations and three countries: Islamic Development Bank (IDB); Germany; France; Asian Development Bank (ADB); World Bank; and Japan.*

Keywords: *government foreign debt, private sector foreign debt, FDI, DCI, economic growth.*

INTRODUCTION

Economic growth is one of essential indicators to conduct an economic development analysis of a nation. Economic growth demonstrates to what extent economic activities will produce additional revenue for society in a particular period. Economic activities use factors of production to generate an output measured by Gross Domestic Product indicators.

Indonesia has a frail and inconsistent economy from time to time (Makmum, 2005). This condition obstructs Indonesia's attempt to maintain the economic stability from internal and external influences. The result is an inability to deal with external economic shock that causes the increase of government expenditure. Then, it contributes a deficit to the state budget. This situation motivates Indonesia to add additional revenue that comes from an foreign debt.

The use of foreign debt as the source of development financing source is applied by developing countries including Indonesia (Syaparuddin, 1996). Foreign debt,

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since Pelita 1 as the beginning of Indonesia development, has been utilized as one of financing sources to overcome the problem of asset scarcity and continues. Data from directorate general of debt management of MoF show that until November, 2015, Indonesia's foreign debt reaches US$304,6 billion or approximately Rp.4,234 trillion. If it is compared to year on year, the position of Indonesia's foreign debt per November, 2015 grows 3,2 percent. That debt growth is higher than the its growth in October, 2015 that only reached 2,5 percent (Directorate General of Debt Management, Indonesia's Ministry of Finance, 2016).

The use of government foreign debt causes pros and cons, particularly for academicians and researcher teams. Those who support the policy believe that it can accelerate the rate of economic growth. The result analysis by Moreira (2003) in a cross-country study from 1970 until 1998 indicates that foreign debt has a positive impact on economic growth. Foreign debt can be a stimulus to improve life prosperity in poor countries, which have low quality of education, sanitation, nutrition, and accommodation (Ferraro and Rosser, 1994).

In other side, those who reject the policy state that foreign debt is unimportant to economic growth. Dowling and Hiemenz (1982) explains that the impact of foreign aids on economic growth is insignificant to nine countries in Asia (Burma, China, India, South Korea, Nepal, Philippines, Singapore, Sri Lanka, and Thailand). Syaparudin and Hermawan (2005) also elaborates that the demand of government foreign debt is insignificant to Indonesia's GDP in 1980-2002.

Foreign debt is linked to two other variables which are Foreign Direct Investment and Domestic Capital Investment. Sukirno (2002) clarifies that there are three financing sources to perform the national development and those are voluntary savings from society, government savings, and forced savings. However, there is a gap between investments and savings. It reflects the incapability of economy to accumulate sufficient national savings for paying the domestic capital investment growth. Then, the foreign debt covers the gap between investments and savings. One of alternatives taken by government besides foreign debt is encouraging foreign investors to invest their assets in domestic through Foreign Direct Investment (FDI).

The idea, which supports that foreign assets have a positive impact on domestic savings and import financings, faces some challenges from those who believe in reliance theory (*dependencia*). They conclude that only a few foreign assets that have a positive impact on domestic savings and economic growth. The main hypothesis of this theory is that FDI and foreign debt in short-term period can improve economic growth; more and more countries that rely on FDI and foreign debt mean more differences of revenue and there will be a turn that the equality cannot be achieved.

Besides, this study also analyzes whether the government policy leaving IMF has affected Indonesia's dependency decrease towards foreign debt or not. This

research is going to find whether there is a significant difference in foreign debt growth before and after leaving IMF in 2003. There are two extreme points of view about IMF. The first is that people perceive it as a savior of every economic problem. Only the stamp of IMF can accept the valuation and the international trust. The second is standing on a belief that everything can be finished without IMF. This research also discusses to what extent the policy of leaving IMF has made Indonesia achieve its independence in defining its own policy for people prosperity.

Based on the background above, this research generates a title, "The Impact of Government Foreign Debt, Private Sector Foreign Debt, FDI, and DCI on Economic Growth and An Analysis of Government Policy for Leaving IMF".

Grounded on the background above, some problems are formulated: 1) How big and significant is the impact of government foreign debt, private sector foreign debt, foreign direct investment, and domestic capital investment on Indonesia's economic growth in 1994-2015?; 2) Is there a significant difference in government foreign debt before and after Indonesia left IMF?

Economic growth is a process of the increase of output per capita during a long-term period that emphasizes three things, namely process, output per capita, and long-term period. Economic growth is a process and it is not an economic illustration of a certain time. Here, we are trying to see the dynamic aspect of an economy, namely how an economy develops or changes from time to time. It emphasizes the changes that occur (Todaro and Smith, 2009).

There are some theories of economic growth, explicitly Solow-Swan Economic growth and Harrod-Domar Economic growth. According to Solow-Swan Economic growth, the big picture of growth process is similar to Harrod-Domar theory, with some assumptions, specifically: labors (or citizens) grow with particular rate, for example P per year; There is a function of production $Q = f(K, L)$ that applies in each period; there is a propensity to save in society accepted as certain proportion (s) from the output (Q). All society savings are invested; $S = I = \Delta K$. According to assumption related to propensity to save, some outputs are going to be set aside with some proportions for savings and after that for investments. Therefore, there will be the increase in capital stock (Todaro and Smith, 2009).

Two economists, Evsey Domar and Sir Roy F. Harrod, develop theory of Harrod-Domar growth. This theory has an assumption that: economy in a state of full employment and capital goods in society is fully functioned; economy is consisted of two sectors that are household sector and business sector; the number of society savings is proportional with national income, which means that saving function starts from zero point and; the marginal propensity to save (MPS), the size is constant, as well as the capital-output ratio (COR) and incremental capital-output ratio (ICOR).

Indonesia's government foreign debt and private sector foreign debt are debts from foreign parties such as partner countries, international organizations (IMF, World Bank, Asian Development Bank), and other members. The debts can be in the form of funds, goods, or services. It is in the form of goods if government buys capital goods or military equipments through credit. It is in the form of services if government sends experts from a creditor to give a consulting service in certain fields as known as Technical Assistance.

Foreign debts can be divided into long-term debt and short-term debt. Short-term debt is a debt with a one year or less due date whereas long-term debt is commonly a debt with a more than one year due date. Long-term debt can be specified based on types of the debt, namely public and publicly guaranteed debt.

On the other hand, government debt is debt that is done by a government agency, including the central government, departments, and autonomous government agencies. The debt which is publiclyguaranted is a debt that is carried out by a private debtor, however the repayment is guaranteed by a government agency. For most developing countries, the type of debt that is public and publicly guaranteed need more attention because if developing countries are not able to repay the debt, the government of that country haveto take the consequences. This risk is not found in the category of private debt which is not guaranteed by the government because the private sector should bear the consequences.

The debt is classified as public and publicly guaranteed can be explained by the creditors. During this time, the creditor (the person who provided the debt) derived from official and private sources. Foreign debt that comes from official sources are divided into two, namely: bilateral debt and multilateral debt (Syaparuddin and Hermawan, 2005). Bilateral debt is any state revenue in the form of foreign exchange and in the form of goods or services that comes from the government of a country through an agency/financial institution that is established by the government to implement the provision of debt that have to be paid back with certain requirements. Multilateral debt is any state revenue in the form of foreign exchange and in the form of goods/services that comes from the administration of foreign debt which come from the international financial and regional institution and normally Indonesia is a member of the financial institution.

Based on the government decree, there are two forms of company capital investment in Indonesia, which are Foreign Direct Investment (FDI) and Domestic Capital Investment (DCI). This form of investment is based on the origin of investing and majority ofthe total investing. Investments are all forms of investing activities, whether by domestic investorsand as well as foreign investors who do business in the territory of the Republic of Indonesia. Investors are individuals or entities who invest that can be a form of domestic investor and a foreign investor (Abdy, 2008).

The flow of international financial resources can be manifested into two forms. The first one is "direct" foreign investment or PMA, which is usually done by companies of multinational giants or also called transnational companies, which is a large company whose head office is in the advanced countries of origin, while the branch operation or its subsidiaries diffuse in various parts of the world. The investment fund is directly manifestedby the form of the establishment of the factory, procurement of production facilities, purchase of machinery and so on.

Private sector foreign investment is also in the form of portfolio investment that the investment fund is not manifested directly as a productiongoods, but it is placed in a variety of financial instruments such as stocks, bonds, certificates of deposit, promissory note investment, and so on. Meanwhile, the second one is the government's official development assistance (public development assistance) or assistance/foreign loans (foreign aid) that comes from the government individually or simultaneously from several parties (multilateral) through the intermediary of independent or private institutions.

Second, the investment may also come from within the country or so-called DI. Domestic capital is capital that is owned by the Republic of Indonesia, Indonesian citizen or business entities in the form of legal entity or non-legal entity. Domestic capital investement is an individual Indonesian citizens, Indonesian business entities, the Republic of Indonesia, or areas that do capital in the territory of the Republic of Indonesia. Domestic company is a majority company (at least 51%) of the capital that is owned by the State or national private sector (UU RI No. 25 of 2007).

RESEARCH FRAMEWORK

Framework in this study as follows:

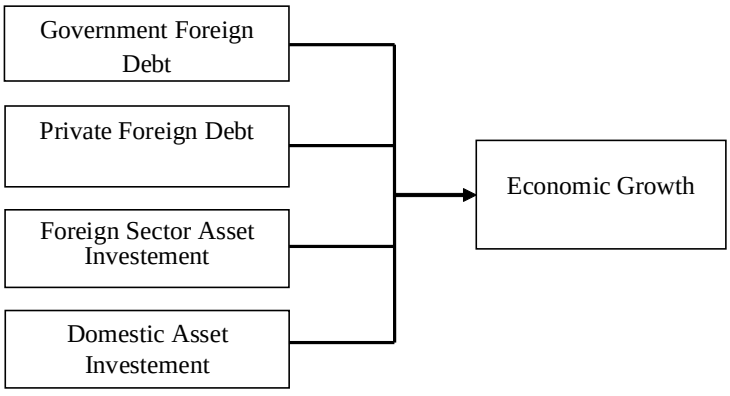

Figure 1: Research Model

Source: Adapted from Quazi, 2005

Chart Linear Regression Model in this study was adapted from a research model Quazi 2005 in Bangladesh. The level of economic growth is affected by the government's foreign debt, private sector debt, Foreign Asset Investment and Domestic Asset Investment.

The hypothesis of this study are: the government's foreign debt, private sector foreign debt, foreign asset investment and domestic asset investment significantly affect Indonesia's economic growth in the period of 1994-2015; there is significant difference of the foreign debt before and after Indonesia leave the IMF; there is significant difference of economic growth before and after Indonesia leave the IMF.

RESEARCH METHODS

This research is an explanatory as this study aims to test the hypothesis of a causal relationship between the variables studied based on the data that was obtained in order to get the meaning and implications of the problem to be solved in a systematic, actual and reliable (Wagiyono, 1994). This study was conducted from August to November 2015. The data used is time series data with the time period ranging from 1994 to 2015. The sourcesof the main data from the International Financial Statistics (IFS), IndonesianBank, Central Bureau of Statistics, Ministry of Finance and General Director of Debt Management.

Data collection technique in this study was done by using arsipal technique. The data collection was done by quoting the data that contained in the IFSdocument report, IB, CPM Ministry of FinanceGeneral Director of Debt Management, and other sources that are relevant to this study.

Operational definitions of various variables used in this study as follows. Economic growth is growth in real GDP per year expressed as a percent. Government Foreign Debt is Indonesia government debt to foreign parties as friendly countries, international institutions (IMF, World Bank, Asian Development Bank), and other parties who are not residents of Indonesia, which must be paid back with interest. Private foreign debt is private sector bankingdebt and non-banking on foreign parties such friendly countries, international institutions (IMF, World Bank, Asian Development Bank), and other parties who are not residents of Indonesia, which must be paid back with interest. Foreign Investment is the total foreign capital invested in the territory of the Republic of Indonesia within a given year. Domestic capital is capital that is owned by the Republic of Indonesia, Indonesian citizen or business entities in the form of legal entity or non-legal entity within a certain time.

The data were analyzed using multiple regression techniques and different test paired sample t-test. Regression techniques are used to analyze the potential impacts of the government's foreign debt, foreign debt of private, domestic and

foreign, to economic growth of Indonesia period 1994 - 2015. Regression with dynamic models because there are variables in the model of inaction (lag). To analyze the impact of the government's foreign debt, foreign debt of private, domestic and foreign, to economic growth of Indonesia period 1994 - 2015 used the basic model developed by Quazi (2005) and adapted to the case of Indonesia with the model specification as follows:

$$PEt = a_1 + b_1\, ULNP_{t-1} + b_2 ULNS_{t-1} + b_3 PMA_t + b_4\, PMDN_t + u_t \qquad (1)$$

Information:

GROWTH	= real GDP growth rate (%)
ULNP	= ratio of government debt to real GDP (%)
ULNS	= ratio of private sector debt to real GDP (%)
PMA	= ratio of foreign investment to real GDP (%)
DI	= ratio of domestic investment to real GDP (%)
T	= time

Test of paired different samples t-test was used to analyze whether there is a significant difference of government foreign debt before and after Indonesia leave the IMF in 2003. In addition, different test Paired samples t-test was also used to analyze whether there is a significant difference of economic growth in Indonesia before and after Indonesia leave the IMF in 2003. The research sample pairs are foreign debt and economic growth before Indonesia leave the IMF period 1994-2002 and after Indonesia leave the IMF period2004 -2015. The criteria: if the value of t is greater than t table or a probability value of less than alpha0.05 it can be concluded that there are significant differences in the government's foreign debt and economic growth before and after Indonesia leave the IMF.

Multiple regressions can be used if it meets the prerequisites diagnostic test. Estimator-estimator that is BLUE (best linear Unbiased Estimator) that is obtained from the linear least squares estimator (ordinary least squares) it have to meet all the classical assumptions (Gujarati, 2003).

First, multicolinearity test is a condition that indicates that one or more independent variables can be declared expressed as a linear combination of the other variables (Gujarati, 2003). Test Multicollinearity is diagnosed by using correlation matrix. By using the correlation matrix, if all of the correlation coefficient between independent variables none exceeds than 0.8, it can be concluded that there is no multicollinearity problems (Widarjono, 2009).

Second, heteroscedasticity is the situation which indicates that the disturbance factor does not have the same variants. The method which is used to detect the existence of heteroscedasticity in this research is by using White testing. White

method is selected to test heteroscedasticity because this method does not require assumptions about the existence of normality on failure variables (Widarjono, 2009). The criteria: If the value of Chi-squares count (n. R^2) is bigger than the value of χ^2 critical with the degree of certain beliefs (α) then there is heteroscedasticity and vice versa; If Chi-squares count is smaller than the value of χ^2 critical shows that there is not heteroscedasticity (Gujarati, 2003); Widarjono, 2009).

Third, auto-correlation test is the situation which shows that the disturbers factors are related to oneanother (Widarjono, 2009). The testing towardthe auto-correlation symptoms in this research is done by using Breusch-Godfrey method. Breusch-Godfrey method is selected because the model of this research includes independent variables which are nonstokastik namely inaction variable (lag). The criteria: If the probability value is bigger than the value of the selected α then we receive Ho which means that there is not auto-correlation (Gujarati, 2003; Widarjono, 2009).

RESEARCH RESULTS AND DISCUSSION

Description of Government Foreign Debt

The trend of government foreign debt in the period of 1994-2015 are tend to be sharply increased. Government foreign debt has increased sharply since the economic crisis on 1998 from Rp 127,32 trillion on 1996 to Rp 679,12 trillion on 1998. Even on 2012 the government foreign debt reached Rp 948,30 trillion, not including the debt stock of the government. The Increasing stock of government foreign debt from year to year is clearly very worrying because it has impact on the performance of the state budget (APBN).

In the short term, foreign debt really helps the Indonesian government in an effort to close the deficit of state budget, due to the financing of routine expenditure and development expenditure which is large enough. Thus, the economic growth rate can be propelled in accordance with the targets that have been established previously. However, in the long term, foreign debt gives a serious problem toward fiscal sustainability of Indonesia. Government foreign debt must be paid back along with the interest to the state or lending institutions. Thus,government foreign debt becomes a burden on government expenditure post and gives negative impact on fiscal sustainability of Indonesia.

Diagnostic Test Result

Multicollinearity test in this research uses correlation matrix (*matrikskorelasi*). The test result about whether there ismulticollinearity problem or not can be observed in Table 1as the following.

Table 1
The Result ofMulticollinearity Test*Correlation Matrix*

	GROWTH	*GFD*	*PSFD*	*FDI*	*DCI*
GROWTH	1,000000	-0,510282	0,050064	-0,687478	-0,499734
GFD	-0,510282	1,000000	0,028162	0,550961	0,411761
PSFD	0,050064	0,028162	1,000000	0,234169	0,191943
FDI	-0,687478	0,550961	0,234169	1,000000	0,273583
DCI	-0,499734	0,411761	0,191943	0,273583	1,000000

Conclusion: there is notmulticollinearity problem because the entire coefficient correlation between independent variables is no more than 0.8
Source: secondary data, processed 2016

From the table above, it can be known that all coefficient correlation between independent variables is no more than 0,8, so it can be concluded that there is no multicollinearity problem.

Heteroscedasticity tests uses White Method. The Test results of heteroscedasticity can be observed in the following table:

Table 2
The Result of Heteroscedasticity Test

White Heteroskedasticity Test:			
F-statistic	23,48476	Prob. F(20,10)	0,000210
Obs*R-squared	32,29442	Prob. Chi-Square(20)	0,067241

Conclusion: the model does not contain heteroscedasticity problem because the chi-squares probability value in the amount of 0,067241 (6.7%) is bigger than á=5%.
Source: secondary data, processed 2016

Based on the detection results of heteroscedasticity problem by using White method, it can be known that the chi-squares probability value in the amount of 0,067 (6.7%) is bigger than α=5%, so it can be concluded that the model does not contain heteroscedasticityproblem.

Auto-corellation test is conducted by using Breusch-Godfrey method. The test resultabout whether there isauto-correlation problem can be observed in the table as the following:

Table 3
The Result of Auto-correlation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1,242572	Prob. F(5,20)	0,326570
Obs*R-squared	8,528597	Prob. Chi-Square(5)	0,216048

Conclusion: the model does not contain auto-correlation problem because the chi-squares probability value in the amount of 0,216048 (21,60%) is bigger than á=5%.
Source: secondary data, processed 2016

Based on Lagrange Multiplier (LM) test which is developed by Breusch and Godfrey, it can be known that the chi-squares probability value in the amount of 0,216048 (21,60%) is biggerr than α=5%, so it can be concluded that the model does not contain auto-correlation problem.

Multiple Regression Results and Discussion

The multiple regression result with Ordinary Least Square method on the program of reviews version 6 can be observed in the table 4 as the following:

Table 4
The Result of Multiple Linear Regressions

Dependent Variable: GROWTH
Method: Least Squares
Date: 01/02/16 Time: 13:55
Sample (adjusted): 1994 2015
Included observations: 22 after adjustments

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*	*Conclusion*
C	-0,163731	3,506365	-0,036706	0,8327	Not significant
GFD (-1)	0,125692	0,032355	3,328373	0,0264*	Positiveand significant
PSFD (-1)	0,031787	0,029175	1,089527	0,2867^{ns}	Not significant
FDI	0,304600	0,121917	2,498413	0,0197*	Positiveand significant
DCI	0,392395	0,067694	5,796609	0,0000*	Positiveand significant
R-squared	0,763862	Mean dependent var		4,619667	
Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*	*Conclusion*
Adjusted R-squared	0,714664	S.D. dependent var		3,814729	
S.E. of regression	2,037689	Akaike info criterion		4,438366	
Sum squared resid	99,65221	Schwarz criterion		4,718605	
Log likelihood	-60,57549	Hannan-Quinn criter.		4,528017	
F-statistic	15,52730	Durbin-Watson stat		1,741232	
Prob(F-statistic)	0,000001				

Note: * significant on α = 0,05 (5%), ns = not significant
Source: secondary data, processed, 2016

Table 4 above shows the results of multiple linear regression which are processed by using Ordinary Least Square (OLS)method. Based on the table above, it can be shownthe regression equation as the following:

$$\text{Growth} = -0{,}163731 + 0{,}125692\ \text{GFD}(-1) + 0{,}031787\ \text{PSFD}(-1) + 0{,}304600\ \text{FDI} + 0{,}392395\ \text{DCI} + e_t$$

$R^2 = 0{,}763862$

Based on the table above, it can be known that the value of R-squared (R^2) is 0,763864. R^2means that 76.38% economic growth (growth) can be explained by the lag government foreign debt (GFD(-1)), the lag private sector foreign debt (PSFD (-1)), Foreign Direct Investment (FDI), and domestic capital investment (DCI), while the remaining 23,62% is explained by other variables outside the model.

The lag regression coefficient of government foreign debt (GFD(-1)) is marked positive in the amount of 0,123692 with probability in the amount of 0,0264. The lag probability of foreign debts is in the amount of 0,0264 smaller than the significance level α=5% (0,05) and the coefficient correlaton is positive, so it can be concluded that the lag foreign debt have positive and significant impact on Indonesia'seconomic growth at the significancelevel α=5%. Correlation coefficient foreign debt lag in the amount of 0,123692 means that when the lag of foreign debt increased by 1 unit, the economic growth in Indonesia rise in the amount of 0,123692 unit.

The lag regression coefficient of Private Sector Foreign Debt (PSFL(-1)) is marked positive in the amount of 0,031787 with probability in the amount of 0,2867. Probability investment in the amount of 0,2867 is bigger than the significance level α=5% (0.05), so it it can be concluded that the lag of Private Sector Foreign Debt does not affect significan toward theIndonesia'seconomic growth at the significance level α=5%.

Regression coefficient of Foreign Direct Investment (FDI) is marked positive in the amount of 0,304600 with probability in the amount of 0,0197. Probability of Foreign Direct Investment (FDI) in the amount of 0,0197 is smaller than the significance level α=5% (0.05) and the coefficient regression is positive, so it can be concluded that Foreign Investment have positive and significant impact on Indonesia'seconomic growth at the significance level α=5%. Regression coefficient of foreign capital investment in the amount of 0,304600 means that when Foreign Capital Investment increased by 1 unit, Indonesia's economic growth rise in the amount of 0,304600 unit.

Regression coefficient of Domestic Capital Investment (DCI) is marked positive in the amount of 0,392395 with probability in the amount of of 0,0000. Probability of domestic capital investment in the amount of 0,0000 is bigger than the significance level α=5% (0,05), so that it can be concluded that domestic capital investment have positive and significant impact toward Indonesia's economic growth.

Lag Government Foreign Debt (GFD(-1)) has a positive and significant effect towards the economical development with regression coeficients as 0,123692 and probability as 0,0264. It is because of later of intent (LoI) between Indonesia and other countries and loan institutions which mantain the utilization of Indonesian foreign debt. Government foreign debt requests are espoused with the utilization

of foreign debt policy package guidelines from the country or loan instutions. The policy package consists of the utilization of government foreign debt to develop the infrastucture and public facility such as impress schools, Puskesmas/clinics, hospitals, streets and bridges.Besides, loan institutions or countries also maintain the utilization of government foreign debt in order to be used for alleviation poverty programs such as BLT, *raskin*, and JPS, and also to develop countries' company. All the policy package has resulted in positive effects when it was implemented in developing countries whose condition is similar and relevant to Indonesia.The utilization of government foreign debt is also supervised by the country of loan institution so that the utilization should appropriate to the policy package which has been agreed in LoI, and it is not allowed to be used by the government, for example is to employers expenses. The government foreign debt utilization to develop infrastucture, facilitation for education and health, and also for alleviation poverty programs gives positive effect towards Indonesia's economic growth.

The condition is linear to the results of a research by Quazi (2005) which is showed that foreign debt significantly increasing the GDP development in Bangladesh in 1973-1999. The cross country research which was done by Moreira (2003) in 1970-1998 showed that foreign debt gives positive impacts toward the development of economy.The foreign debt can be an intial stimulus in order to improve a better prosperity in developing country which is left behind in education field, healthy cultivation, good nutrition and residence. The results of a research by Svensson (2000) showed that foreign debt give positive impacts towards economics matters, the development of society proverty, if only the foreign debt is being used to the development and there is no moral hazard problem which is related to the use of the debt. Bulow dan Rogof (1990) dan Chowdurry dan Levy (1997) dalam Antoni (2007) conclude that the foreign debt has become one of the significant factors in improving the economical development in developing countries. A diferent result of research is stated by Syaparuddin and Hermawan (2005) which is showed that the requests of foreign debt give positive impact but it is not significant to the improvement of GDP Indonesia in 1980-2002.

Lag Private Sector Foreign debt doesn't have significant effect towards the development of economy with regression coeficient as 0,031787 and probability as 0,2867. The private sectorforeign debt mostly be used to pay the operational activity of private company, so that it does not give significant effects towards the development of economy in Indonesia. Private sectorforeign debt is not used to public sector business, but it is used to increase the supply of its company. The consequences are lag private sector foreign debt does not give significant impact towards the development of economy in Indonesia. However, a different result is stated by Adwin (2001), private sector foreign debt gives positive impact and it is significant towards Indonesia's economic growth.

Foreign Asset Investment (FAI) gives positive and significant impacts toward the development of economy in Indonesia with regression coeficient as 0,304600, and the probability as 0,0197. The increasing of Foreign Asset Investment (FAI) affects the production activity in real sector so that the development of economy is also increased. It is linear to Solow who states that the more asset supply, the more output. If a country set aside a part of the emolument to investation, the country will have a high asset condition and high emolument (Mankiw, 2000).

Foreign Asset Investment (FAI) gives positive impact toward the development of GDP because FAI is allocated to real sector, especially industri sector. FAI industri from America mostly invest in petroleum sector. Jpan, Germany, England and Netherlands FAI mostly invest in manufactur sector, not in petroleum sector. In two last decades, the industrial countries such as Hongkong, Taiwan, Singapore and South Korea have embellished FAI in Indonesia in electronic field (Saad, 2001). It is linear to a research by Rilam (1997) which concludes that a directly foreign investation development GDP Indonesia in 1969-1993 at alpha 0,10 (α=10%).

Foreign Asset Investment (FAI) gives positive and significant impacts toward the development of economy in Indonesia with regression coeficient as 0,392395, and the probability as 0,0000. Domestic Capital Investment (DCI)mostly directed in industrial sector such as banking industry, manufactur industry, estate industry, fishery industry, agriculture industry, mining industry, and petroleum industry. Domestic Capital Investment (DCI) which is directed in real sector causes an increasing of money supply. The increasing of money supply can trigger inflation. The goods inflation can stimulate the development of real sector. It is linear to a research by Belinda (2007) about Domestic Capital Investment (DCI). Belinda (2007) states that DCI gives positive and significant impact to Indonesia's economic growth during the monetary crisis in 1999-2004.

The explanation of Indonesia Foreign Debt before and after leaving IMF

In 2003, Indonesia decided to drop out from IMF. The following explanation is the condition of Indonesia foreign debt ratio towards realGDP before Indonesia left IMP (1994-2002) and after Indonesia left IMF (2004-2015). The comparation is not only in the amount of the debt, but also the government debt ratio toward realGDP. The consideration is that the ratio mostly describe the variation of the huge changes in government foreign debt towards real GDP in certain years. The result is presented as Table 5.

From the paired sample test above, it can be shown that there is a significant ratio difference of Gofernment Foreign Debt toward real GDP before and after Indonesia left IMF with probability as 0,005 < alpha 5% (α=0,05). Based on the differential test which is attached in appendix, it can be said that the mean of GFD towards real GDP before Indonesia left IMF as 45,55 while after leaving IMF is

Table 5
Differential Test*Paired* Sample t-Test

		Paired Samples Test							
		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	*Std. Deviation*	*Std. Error Mean*	*Lower*	*Upper*	*T*	*Df*	*Sig. (2-tailed)*
Pair 1	GFD 1994-2002 GFD 2004-2015	2.62222E1	20.17286	6.72429	10.71599	41.72846	3.900	8	.005

Source: secunder data, 2016

19,33. Therefore, it shows that mean GFD towards real GDP after Indonesia left IMF is lower than before leaving IMF. It can be analyzed that the decisions of leaving IMF caused ratio decline in GFD towards real GDP. However, it should be known that the amount of GFD ratio towards real GDP each year.

The data analysis results showed that there is a significant difference in ratio GFD towards GDPreal before and after Indonesia went out from IMF. GFD ratio towards GDPreal experiencing significant derivation from 45,55 to 19,33. One of the reasons is the fact that repayment of Indonesian Foreign Debt from the International Monetary Fund (IMF) is as much as 3.2 billion US dollars in 2007. The Governor of Bank Indonesia at the time, Burhanuddin Abdullah, announced that the country is free from the trap of foreign debt that could haunt after the 1997 economic crisis.

However, apparently Indonesia's debt repayment for the IMF in 2007 is not the end of the special relationship between Indonesia and the international financial institutions. In 2008, the Ministry of Finance included funds as much as Rp 1,02 trillion to increase the capital of five international financial institutions, including the International Bank for Reconstruction and Development (IBRD) as much as Rp 172 billion and the Asian Development Bank (ADB) as much as Rp 337 billion. The entire membership deposit funds used the state budget funds. Other than the payment for the IMF as of December 31, 2012, Indonesia deposited funds as much as Rp 30 trillion to the IMF.

The cause that Indonesia has never been disconnected from the financial institutions is the existence of the binding membership. Until now, the government has never tried to renegotiate the portions of the membership in the IMF or the World Bank. Even the central government assessed that the IMF and The World Bank has been proven to participate in maintaining the global economic stability. Therefore, Indonesia still maintains its relation with the IMF and the World Bank. Consequently, although Indonesia has repaid its debt in the IMF, Indonesia foreign debt ratio to GDP is still quite large.

After paying off the debt at the IMF, Indonesia still applies for loans to various countries and institutions abroad. Data from the Directorate General of Debt Management at the Finance Ministry in early January 2014 showed that there were three agencies and three States as the largest source of Indonesian government debt.

The first is the Islamic Development Bank (IDB). Indonesian government had in IDB as much as Rp 6,64 billion at the end of 2013. The amount of this debt had increased compared to the end of 2012 which as much as Rp 5,09 trillion. The second is Germany. The number of Indonesian government debt to Germany had reached Rp 23,68 trillion by the end of 2013. This number had decreased from the end of November 2013 amounted to Rp 24,19 trillion. However, when compared to the end of 2012 amounted to Rp 20 trillion, the amount of foreign debt of the Indonesian government Germany had increased. The third is France. The Indonesian government had a debt as much as Rp 25,83 trillion in the French State until the end of 2013. When compared to November 2013 amounted to Rp 26,04 trillion, Indonesia's government debt to France had decreased, however, this debt had increased compared to the end of 2012 which amounted to Rp 21,3 trillion. The fourth is Asian Development Bank (ADB). The number of Indonesian government debt to ADB until the end of 2013 was Rp 114,42 trillion. This number had increased from November 2013 which was Rp 108,26 trillion. The value of the debt had also increased compared to the end of 2012 which was worth Rp 100,34 trillion. The fifth is The World Bank. The value of Indonesian government debt to The World Bank until the end of 2013 was Rp 163,74 trillion. This number had increased from November 2013 which reached Rp 152,33 trillion. Then, compared to late 2012 which reached Rp 122,14 trillion, the number of Indonesian government debt to The World Bank had also increased. The sixth is Japan. Indonesian government debt to Japan until the end of November 2013 was the largest, it reached Rp 257,89 trillion. This number was increased compared to October 2013 which was Rp 251,73 trillion. However, the amount of debt was increased from the end of 2012 which was worth Rp 254,64 trillion.

CONCLUSION AND SUGGESTION

According to the data analysis and discussion, it can be deduced as follows. Firstly, the government foreign debt lag (GFD (-1)) gives positive and significant effect on the economic growth in Indonesia. Foreign Investment and Domestic Investment also gives positive and significant effect on the economic growth in Indonesia. However, private sector foreign debt has no significant effect on the economic growth.

Secondly, there are significant differences between GFD ratio to real GDP ratio before and after Indonesia leaving the IMF. GFD ratio to real GDP ratio is decreased significantly from 45,55 to 19,33. One of the decreasing causes is the fact about

repayment of Indonesia foreign debt to International Monetary Fund (IMF) amounting to 3,2 billion US dollars in 2007. However, until now Indonesia never break ties with the IMF since the membership is still binding. The Indonesian government has never renegotiated the membership positions in the IMF or the World Bank. There are three agencies and three countries to be the biggest source of the Indonesian government debt, namely: Islamic Development Bank (IDB); German; France; Asian Development Bank (ADB); The World Bank; and Japan.

There are several things that can be suggested in relation to the result of this research: First, government foreign debt (Debt(-1)) gives positive and significant impact to the economic growth since the government foreign debt during 1994-2015 was dominated by soft loan and in a long term period. Therefore, the government is advised to try choosing softloan and in a long term period. On the other hand, the government should strive to avoid high interest loan and loan with a Letter of Intent which can be detrimental to Indonesia. On the other hand, the utilization of government foreign debt should be based on the effort to increase the economic growth. Also its use should be totally directed for productive activity (repayment capacity).

Second, FDI and Domestic Capital Investment as much as possible should be focused on the real sector, especially the industrial sector since the investment gives positive and effect on the growth of the Indonesian economy. FDI and DCI, that have been approved by the government in a certain year should be realized in the same year. On the other hand, Bank Indonesia should carefully consider the determination of interest rates for BI saving deposit since it negatively affects the economic growth in Indonesia. The government needs to pursue the optimization of state revenues, particularly revenues from taxpayers who do not meet their obligations. The government should also control the operating costs and make efficient of routine operational expenses so that the fiscal sustainability and the primary balance continue to increase which could increase the economic growth.

Third, the government should immediately inventoried components of the government foreign debt with its high interest and try to pay off the foreign debt component with its high-interest in order not to interfere with Indonesia's fiscal sustainability. The government should pursue breakthrough steps to reduce the burden of foreign loans through: intensive communication with the World Bank and UNDP regarding debt sustainability assessment; the program redemption of debt (debt swap); and economic diplomacy in every international forum in order to seek a decrease in foreign debt stock in order not to disturb Indonesia's fiscal sustainability. Bank Indonesia should consider carefully the interest rate of BI savings that is set in order not to negatively impact Indonesia's fiscal sustainability. The government, BI and the business community strengthen the coordination and make a comprehensive policy to enable the steady economic growth so that it gives positive impact on Indonesia's fiscal sustainability.

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