# CHAPTER VI

# CONCLUSIONS AND RECOMMENDATIONS

## 6.1 Conclusions

Based on the explanation in the previous chapter. Except shocking moment in 1998, real GDP growth rate of Indonesia during the period of 1996 – 2015 shows fluctuations and tend to stable. Indonesia has used foreign borrowing to finance development since the Old Order (Orde lama). During 1996 until 2007, the number of Indonesia's external debt tend to stable, but starting from 2008 until 2015 the number of indonesia's external debt consistently increase.

The similar thing that happen in real GDP growth rate Indonesia also found in inflation of Indonesia from 1996 to 2015. After asian financial crisis in 1998, inflation of Indonesia tend to low and stable. In addition, the positive thing also happen in Corruption Perception Index. Indonesia's score in Corruption Perception Index consistently increase from 2000 until 2015.

The regression results of equation show that external debt, inflation and Corruption Perception Index are significant at 5 percent significance level ($^{**}$), respectively, which means that all of independent variables starting from external debt, inflation and Corruption Perception Index Gross have significant effect on the real GDP growth rate. In addition, all of independent variables except corruption perception index has negative impact with real GDP growth rate in Indonesia. The coefficient of external debt is -3.8 which mean if external debt increase for 1 million of US dollar, the real GDP growth rate of indonesia will decrease by 3.8 million of US dollar.

Indonesia has used foreign borrowing to finance development since the Old Order (Orde lama). During 1996 until 2007, the number of Indonesia's external debt tend to stable, but starting from 2008 until 2015 the number of indonesia's external debt consistently increase.

The negative impact of External debt to real GDP growth rate in Indonesia might be relate with the using of external debt is not optimal, it can be this external debt not used for productive sector or productive investment, it can be this external debt is corrupt. It might be also Indonesia is not considers the debt capacity in terms of the benefit and cost of borrowing in the process of economic growth which is the basic argument of a country will maintain its capacity to service debt provided that additions to its debt overtime contribute (sufficiently) to growth. On the other hand, the indirect effect of debts is its effect on investment. The transmission mechanism through which debts affect growth is its reduction on the resources available for investment by debt servicing.

The negative impact of inflation to real GDP growth rate in Indonesia can be minimized by keeping inflation stable and low. If inflation is low and predictable, it is easier to capture it in price-adjustment contracts and interest rates, reducing its distortionary impact. Moreover, knowing that prices will be slightly higher in the future gives consumers an incentive to make purchases sooner, which boosts economic activity.

Indonesian's score in corruption perception index showing positive trend since 1999 until 2015. Corruption perception index has positive relationship with real GDP growth in Indonesia. So government of Indonesia should keep that positive trend. The higher score that Indonesia get in corruption perception index indicate about Indonesia become more clean country in term of corruption.

The value of F-statistics is 106.4748 which is significant at the 5 percent significance level. This means the independent variables simultaneously have effect on dependent variable. In addition, external debt, total investment, inflation and corruption perception index have impact significantly on real GDP growth rate.

The value of coefficient of determination ($R^2$) is 0.95. This value shows a high measurement for the independent variables to explain their effect on the dependent variable in the model. It means that the variation of the dependent variable can be explained by the independent variables about 95 %, when the rest 5 % are explained by factors outside the model.

UNIVERSITAS ANDALAS
UNTUK KEDJAJAAN BANGSA

### 6.2 Recommendation

Based on the study, external debt is an important source of finance for achieving national objectives, supporting economic growth, and other needs of a country. However, if the external debt is not used for creating income and productive activities, there is an opportunity reduction on the resources available for investment by debt servicing. In other word the ability of a debtor nation to repay the debt is absolutely reduced. So Indonesia must use external debt for creating income and productive activities.

UNIVERSITAS ANDALAS
UNTUK KEDJAJAAN BANGSA