CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion

The main objective of this study is to examine the relationship between government debt and economic growth of Indonesia in period 1980 until 2017 using Autoregressive Distributed Lag (ARDL) method. From the analysis of data that has been conducted, it is obtained the following conclusion:

1. The ARDL cointegration results show that there are long-term relationships among the variables applied.

2. The results of the long-run estimates also show that almost all independent variables also significantly influence Indonesia's economic condition in the long run, only human capital does not have a significant effect on economic growth. Ratio of trade to GDP and human capital has positive relationship with economic growth in long run. Otherwise, ratio government debt to GDP, population growth, gross fixed capital formation and Inflation has negative relationship with economic growth in long run.

3. The results of short-run ECM estimation revealed a negative and significant relationship between government debt and economic growth in Indonesia. Increasing 1% in the ratio of government debt will reduce economic growth by 0.586916%. Meanwhile, population growth and inflation also has negative relationship with economic growth in short-run. Otherwise, gross fixed capital formation, ratio trade to GDP, and human capital has positive

impact on economic growth in short run, which conforms to appropriate expectations.

4. The main conclusion of this study is government debt and economic growth has negative relationship both in long-run and short run. Increasing in government debt will results decreasing in economic growth.

6.2 Recommendation

Based on the conclusion, it can be given recommendations as follows:

1. For the government as consideration in arrange the policy, it is expected that the government reduce debt and find other sources of capital in supporting economic development, such as maximize tax revenue and investment. Besides reducing debt, government should effectively in managing debt, such as provide more portion for productive economic sectors to affect performance of economic growth in a positive manner.

2. For Future Researcher or students that have the same scope with this study, this study can be used as a reference. This study still has needed some improvement. So, it's recommended for next research to improve the study and increase the scope of research, and try using another method, different perspective and different variables. Researchers in the future are expected to increase the research data series so that the results obtained are better and more accurate.