CHAPTER V
SUMMARY & CONCLUSION

5.1 Summary

This study aims to analyze the sustainability of the Indonesian government's Primary balance, and analyze the fiscal respon to Government Foreign Debt and Macroeconomic factors using the fiscal reaction function approach and the ARDL and NARDL model. The data used are monthly data for the period 2015–2024 in trillion rupiah and percent, including the variables primary balance, government foreign debt, Industrial production index, interest rate of debt and inflation rate.

5.1.1 Development of Government Foreign Debt (2015-2024)

The analysis shows that Indonesia's government foreign debt showed a significant upward trend since 2015 until it peaked around 2020. This increase mainly occurred in response to fiscal pressures during the COVID-19 pandemic. which required the government to increase financing for the health sector and economic recovery. After 2021, debt tended to decline gradually until 2023, although in 2024 it again showed a slight increase. The YoY growth rate has been declining since 2016, even recording negative growth of -8.13% in 2022, reflecting a fiscal tightening policy or a reduction in government borrowing needs that year. This interpretation reflects the Indonesian government's dynamic fiscal policy and foreign borrowing behavior, which are influenced by global economic conditions.

5.1.2 Classical Assumption Test

In the Linear regression classical assumption test. all assumptions are met. the data is free from multicollinearity. heteroscedasticity. and autocorrelation. Some variables are non-stationary. but have been transformed to be valid for analysis.

5.1.3 Fiscal Reaction Function

It is found that the lag value of the primary balance ($\lambda = 0.6778738$) is significant and indicates high fiscal inertia. The government foreign debt lag coefficient ($\rho = 0.0412549$) is not significant, indicating no direct fiscal response to the increase in debt. The debt sustainability test uses the condition $\rho > \Gamma$ (1-λ). Based on the results of the analysis. the value of ρ is indeed greater than the limit of Γ (1-λ). but ρ is not statistically significant from the regression results. This shows that there is no strong evidence that the fiscal response actually occurred even though its value is greater than the minimum requirement.

5.1.4 ARDL Results

Based on the results of data analysis using the Autoregressive Distributed Lag (ARDL) model, there is a long-term relationship between the primary balance and macroeconomic variables such as government foreign debt, industrial production index, interest rates of debt, and inflation rates. This is based on the results of the cointegration test with bounds test which shows the F-statistic value is greater than the upper bound, as well as a significant t-statistic. This means that in the long term there is a structural relationship between the government's fiscal position and the dynamics of these economic variables. The results of the ARDL model show that only some variables have a significant effect on the primary balance. The primary balance (lag) variable has a significant positive effect on the current primary balance, the Industrial Production Index has a significant negative effect in the short term, which indicates that the increase in industrial production in the short term has not directly impacted the increase in state revenues. The variables of foreign debt, interest rates of debt, and inflation rate in the ARDL model do not have a statistically significant effect on the primary balance, although the direction of the coefficient is generally in accordance with the theory.

5.1.5 NARDL Results

The NARDL model identifies an asymmetric fiscal response to external debt. An increase in debt (debt +) has a significant effect on the increase in the primary balance, both at lag 0 and lag 1. This shows that when debt increases, the government tends to respond with fiscal discipline by adjusting the primary balance position. Conversely, a decrease in debt (debt +) does not show a significant effect on the primary balance. This means that the government does not actively reduce spending or relax policies when debt decreases. This confirms the hypothesis of asymmetry in the fiscal response, as explained in the NARDL model. Overall, the results of this study indicate that Indonesia's fiscal policy tends to have responsive characteristics to debt dynamics, especially when there is an increase in debt. However, the effectiveness of this fiscal response is still limited to several other macro variables such as interest rates and IPI. In addition, the existence of fiscal inertia shows that past fiscal policies greatly affect the current fiscal position.

5.2 Conclusion

Based on the results of the analysis, it was found that the primary balance of the Indonesian government showed strong fiscal persistence, Indonesia's primary balance exhibits relatively stable sustainability characteristics. This is evidenced by the positive and significant coefficient on the primary balance value from the previous period. Government foreign debt does not significantly affect the primary balance in the linear and ARDL models, but an asymmetric response is found in the NARDL model. The government reacts differently to increases and decreases in foreign debt. Macroeconomic factors, such as inflation, debt interest rates, and the industrial production index, do not significantly affect the primary balance in either the linear or ARDL models. However, the direction of the coefficient indicates that inflationary pressures and high debt interest burdens tend to worsen the primary balance. Although not statistically significant, the direction of this relationship remains important to consider in policy formulation.

Overall, the results of this study indicate that the Indonesian government has a sustainable fiscal response, although it is not yet strong enough to actively address the debt burden. Increased effectiveness in fiscal policy is needed to ensure that the primary balance remains capable of supporting fiscal stability, especially in the face of debt volatility and global economic pressures.

Thus, the sustainability of the primary balance in Indonesia has not been completely disrupted, but it needs to be anticipated through a more adaptive fiscal policy oriented towards prudent debt management and strengthening the state revenue base.

5.3 Recommendation

Based on the analysis results. several policy recommendations that can be considered by the government and policy makers include:

1) Strengthening Fiscal Rules Responsive to Debt. The government should set a primary balance target that is automatically adjusted to the level of foreign

debt, so that it can encourage a more disciplined and measured fiscal response.

2) Expanding the State Revenue Base. Tax reform and improving fiscal compliance can help increase the primary surplus sustainably, without reducing the quality of state spending.
3) mm. The government needs to encourage revenue and spending efficiency in order to maintain the primary balance.
4) Economic growth as a support for fiscal sustainability. The government must maintain growth above interest rate of debt because a high (r - g) gap worsens the fiscal position.
5) Controlling external debt interest. The interest rate effect is not statistically significant but remains important in economic logic especially when global interest rates rise.

5.4 Suggestion

Further Research Suggestions

1) Further research is suggested to use panel data across economic sectors to obtain a more specific and accurate picture.
2) It is suggested to include additional variables such as debt interest expenditure, overall fiscal budget balance, or refinancing mechanisms.
3) Use the VECM or ECM method if the long-term relationship between data units is detected through cointegration.