GROSS DOMESTIC PRODUCT: Financing & Investment Activities and State Expenditures

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ABSTRACT
The growth of an economy is influenced by many factors, both micro and macro. Directly, economic and financial instruments have a close relationship to the dynamics of GDP, so they receive special attention. In its implementation, economic growth is also influenced by investment activities, banking financing, and state spending. To study this phenomenon, a quantitative method is used with the Vector Error Correction Model analysis technique. In this analysis, attempts to see which model is better in influencing economic growth with realistic data. The results of the study show that, in general estimation models, there is a possibility that economic growth is influenced by state spending, investment activities and bank financing. However, in the long-term model test, the state expenditure factor is the only variable in this study that has a positive trend towards economic growth. Because it has a greater opportunity in moving the economic sector.

Keywords: State Expenditure, GDP Growth, Financing and Investment, Inflation

INTRODUCTION

When the global economy was experiencing a slowdown in 2019, Indonesia still showed positive economic growth at 5%. This proves that Indonesia has the strength to survive in uncertain conditions. The source of Indonesia's strength comes from two factors, namely the strength of investment and high public consumption.

The increase in the economic growth of a country can be seen from the increasing economic activity from one period to the next. With the increase in economic growth from the previous period to the next period, it is able to explain that the factors involved in the production process affect economic growth (Andrean, & Mukhlis, 2021).

These production factors have a very important role in increasing economic growth in Indonesia by increasing the goods and services produced. Therefore,
government efforts are needed to optimize these factors in order to increase economic growth in Indonesia.

The economic growth that occurs certainly cannot be separated from the role of the government. This role can be seen from the various policies taken by the government in the context of economic development (Hana, & Prasetyanto, 2021). Fiscal policy is one of the policies carried out in order to maintain economic stability. Government spending is one of the government's fiscal policies in order to regulate the course of the economy by determining the amount of government revenues and expenditures each year.

As of the end of December 2019, the realization of state spending reached IDR 2,310.2 trillion, an increase of 4.4 percent compared to the same period in 2018. This increase in state spending is considered as an effort by the government to improve the quality of state spending. This effort can be seen from the realization of central government spending, such as personnel spending which increased 8.35 percent from the previous year, debt interest payments grew 6.8 percent compared to 2018, grant spending increased by 325.7 percent compared to the same period in the previous year, and social assistance spending which increased by 34.1 percent compared to the same period in 2018. On the other hand, the realization of expenditure on goods, capital expenditures, subsidies, and other expenditures in 2019 showed a decline due to less productive spending efficiency in the previous year (Ministry of PPN/BAPENAS, 2020).

There are two different views regarding the relationship between government spending and economic growth in macroeconomic theory. First, according to Adolf Wagner, the amount of government spending is influenced by economic development, meaning that the more advanced an economy the size of the government will also be seen from government spending. Second, according to Keynes's theory, government spending will affect the economy (Solikin, 2018).

As a developing country that has the potential to become a developed country, Indonesia needs some capital to carry out economic development efforts. The charm of natural resources in Indonesia is one of Indonesia's ways to attract investors to invest in Indonesia (Hana, & Prasetyanto, 2021). However, it is not easy to attract investors to
invest in Indonesia if it is not followed by various other factors that can prevent investors from investing in Indonesia, such as regulation, investment management, etc.

To achieve economic growth, high investment is required, but high capital requirements cannot rely solely on domestic capital formation, which is currently still low. Therefore, foreign investment is needed to increase economic growth in Indonesia. In terms of capital formation, the role of investment, both domestic and foreign, contributes to economic growth (Yusuf, et al., 2021).

In addition to government spending and investment that can boost the economy in Indonesia, the banking system through financing policies provided to the economic sector is a pillar of economic growth. The banking system through the financing policy provided has the same characteristics as government spending, especially in its ability to increase the demand side so as to encourage an increase in national income or output (Terminanto & Rama, 2017). In addition to investment in the form of PMDN and PMA, Islamic bank financing is also a form of investment that is channeled directly to the economic sector by Islamic banks.

The positive performance of the financial and banking sectors will have a positive correlation with the economic performance of a country. The financial and banking sectors can be the main sources of growth in the real sector of the economy. The more third-party banking funds allocated to the real sector, the lower the unemployment and poverty rate in an economy. Banking sector Collects most of the funds from households, which are then allocated to several viable projects (Ang, 2008) Then, each company is motivated to compete to receive financing for potential economic boosting projects (Fadly, et al., 2021).

With the existence of Islamic banking, it is expected to be able to move the national economy which consists of the real sector and the financial sector. This content is in accordance with the function of Islamic banks as intermediary institutions, namely in terms of collecting funds from the public which are usually referred to as third party funds then the collected funds are invested in the economic sector that does not conflict with sharia (financing provided) (Nengsih, et al., 2021). From this function, it is expected that the real sector will be able to increase its production which will then affect economic growth in Indonesia.
THEORETICAL BASIS

Economic Growth

Economic growth simply means that there is an increase in output or an increase in aggregate national income within a certain period of time, for example one year. A country is said to be experiencing growth if the amount of real remuneration for the use of production factors in a given year is greater than in previous years (Normasyhuri, et al., 2022). Economic growth is the most important factor in the development of a country. The success of the development of a country or region is measured based on the high and low levels of economic growth that have been achieved. The conventional measurement of economic growth is usually calculated from the percentage increase in Gross Domestic Product (GDP) for national and Gross Regional Domestic Product (GDP) for provinces and districts/cities (Zahari MS, 2017).

Financing

According to (Utami, & Nurrohmah, 2022), Islamic bank financing is an alternative solution for business actors who have problems in terms of capital. Sharia financing also has an important role for business actors in Indonesia in the future, especially for micro business actors. This important role is to be able to open up financing opportunities for business activities based on the principle of partnership. The development of micro-enterprises in Indonesia will have an impact on reducing unemployment which will then have an impact on increasing people's income in Indonesia.

Government Expenditure

According to (Zahari, 2017), government expenditure is one of the fiscal policies, namely a government action to regulate the course of the economy by determining the amount of government revenues and expenditures each year which is reflected in the state budget documents for national and regional/regional budgets. According to Peacock and Wiseman's theory, economic development will have an impact on increasing tax collection even though the tax rate does not change, this increase in tax revenue will have an impact on increasing government spending. Under normal circumstances, an increase in GDP leads to greater government revenues and expenditures. So government spending is classified into direct spending and indirect spending if it increases it will cause GDP to increase (Putri, & Siladjaja, 2021).
Investment

According to (Setiawan, 2021) emphasizes the importance of aggregate demand as the main factor that can drive the economy, where both the state and the private sector play an important role. Keynes views the government as an independent agent that is considered capable of stimulating the economy through public work. Expansionary government policies can increase “effective demand” if resources are used without harming consumption or investment. During a recession, an increase in Government spending (G) will encourage an increase in consumption (C) and investment (I), and therefore can increase GDP (Y). To achieve economic growth, high investment is required, but high capital requirements cannot only rely on low domestic capital formation. Therefore, foreign investment is needed to increase economic growth in Indonesia. In terms of capital formation, the role of investment, both domestic and foreign, contributes to economic growth (Febyningtyas, et, al., 2021).

METHOD

In this study, the authors used secondary data, namely data sourced from various information media or obtained indirectly. This data is obtained in the form of evidence, notes, or historical records that have been compiled in published documentary archives (Damayanti, & Suartini, 2021).

The data collection methods used in this study are as follows: Library research is the basis for theory and hypothesis development which is formed and is the result of searching and collecting data from various literatures, such as books, scientific journals, and other writings.

Based on the form of data in this study which is time series data that describes economic fluctuations and which presents a fiscal policy and banking policy, the impact of these policies on developments in the real sector does not have an immediate impact, which usually requires a certain grace period (lag). These three problems can be answered by the Vector Autoregressive (VAR) model and the Vector Error Correction Model (VECM). VAR/VECM is one of the most commonly used forms of macro-econometric models.
RESULT

Stationarity

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mc Kinnon Critical Value 5%</th>
<th>ADF Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>(GDP)</td>
<td>-2.909206</td>
<td>-3.262663</td>
<td>Stationary</td>
</tr>
<tr>
<td>(Financing)</td>
<td>-2.906210</td>
<td>-1.914787</td>
<td>Non-Stationary</td>
</tr>
<tr>
<td>(Government Expenditure)</td>
<td>-2.909206</td>
<td>-2.248760</td>
<td>Non-Stationary</td>
</tr>
<tr>
<td>(Investment)</td>
<td>-2.912631</td>
<td>-0.599048</td>
<td>Not Stationary</td>
</tr>
</tbody>
</table>

Source: Research data, 2021

Based on the results of the root test at the level level, it can be seen that the output data in the stationarity test at the level level shows that all variables have ADF values > Mc Kinnon Critical Value 5%, meaning that only the GDP variable is stationary while the variable lian does not, so it is necessary to continue with the unit root test on the first difference.

Optimal Lag Test

Optimal length test lag is used to eliminate autocorrelation problems in VAR system. Optimal use of lag with the aim of problems related to autocorrelation does not reappear. Amount of lag in this study is based on the Akaike Information Criteria (AIC) and Schwarz Information Criterion smallest or minimum. Based on the results of the lag test, it can be seen that the recommended lag in this study is the 5th lag.

Cointegration

Based on the statistic analysis, it shows that there are 3 equations that are cointegrated. This can be seen because the value of trace statistics and Max-Eigen Statistics is greater than the critical value of five percent. Then all variables can be said to be cointegrated. The model that will be used is the Vector Error Correction Model (VECM) because there are cointegrated equations.

VECM Estimation

Based on the table short-term the fourth lag GDP variable has a significant effect on GDP, this proves that GDP is influenced by the previous lag, namely the fourth lag of GDP itself. Meanwhile, the variables of Islamic bank financing, government spending, and investment have no significant effect on economic growth in Indonesia.
This proves that the independent variables in this study need time to affect GDP in Indonesia.

While in the long term, Islamic bank financing, government spending, and investment have a significant effect on economic growth in Indonesia with different coefficient values.

CONCLUSION

In the short term Islamic bank financing has no significant effect on economic growth in Indonesia. While in the long term Islamic bank financing has a significant and negative effect on economic growth with a coefficient value of -1.111488. This shows that in the long term changes in Islamic bank financing will always be followed by changes in GDP in a reverse direction, meaning that if there is a 1% increase in GDP there will be a 1.11% decrease in Islamic bank financing.

In the short term, government spending has no significant effect on economic growth in Indonesia. While in the long term government spending has a positive and significant impact on economic growth in Indonesia. This can be seen from the coefficient of government spending of 1.446906 with a t value of 1.446906, meaning that every 1% increase in government spending will increase 1.45% of economic growth in Indonesia.

In the short term, investment has no significant effect on economic growth in Indonesia. While in the long term, investment has a significant and negative effect on economic growth in Indonesia with a coefficient value of -0.215974, meaning that every 1% increase in investment causes a decrease in economic growth of 0.22% or vice versa. This condition is caused by the global economic crisis, an unfavorable investment climate, the unequal distribution of investment in Indonesia.

REFERENCES


