ISSN: 2288-7709 © 2017 EABEA. http://www.icma.or.kr
doi: http://dx.doi.org/10.20482/jemm.2017.5.1.27

Domestic Government Debt and Economic Growth in Indonesia: An empirical analysis

[1] Alexander Romarino Bukit, [2] Lukytawati Anggraeni

1. Corresponding Author, Student, Department of Economics, Bogor Agricultural University at Bogor, West-Java, Indonesia. E-mail: alexander.romariobukit@gmail.com

2. Lecturer, Department of Economics, Bogor Agricultural University at Bogor, West-Java, Indonesia. E-mail: lukytawati_anggraeni@yahoo.com

Received: January 24, 2017. Revised: March 18, 2017. Accepted: March 21, 2017

Abstract

Domestic government debt securities is one of the steps which is taken by the government of Indonesia as a major source of financial budget, covering for the budget deficit, debt payments and interest debt. The purposes of this research are to know the development of budget deficits, government debt and impact of domestic government debt securities against economic growth in Indonesia. Method of analysis used Ordinary Least Squares (OLS) analyzing the impact of the domestic debt against economic growth in Indonesia. This research uses time series data from 1997 to 2014. Total government debt and domestic government debt securities in Indonesia increased during the last five years. The average of domestic government securities was above 50 percent of the total government debt. Estimated results showed domestic government debt securities has a positive and significant effect to economic growth. Official development assistance (ODA) has a negative effect to economic growth. Other variables such as the gross fixed capital formation and receipt of remittance have positive and significant effect, total imports and government expenditure have negative and significant effect against economic growth.

Keywords: Domestic Government Debt Securities, Economic Growth, Official Development Assistance, Ordinary Least Square.

1. Introduction

The welfare of society is one of the government's goals through sustainable economic development. Economic development is determinations not only for the low-income countries, but also for the middle and high-income countries. Including Indonesia as middle-income countries. In achieving the stability of economic growth, it is depending on the economic development of a nation. Economic development was the determination to improve standard of living people that was often measured from high to low income per capita rill (Irawan & Suparmoko, 1999). The problems that often arise in the implementation of economic development in order to accomplish good economic growth are the balance of payments deficit and the limited capital accumulation. Balance of payments deficit in a country is a serious socio-economic problem and governments efficiently effort to allocate their expenditure for achieving and maintaining of the stable economic growth, such as spend their income for the purpose of improving public services, but lower tax revenues in Indonesia cause balance of payments deficit. This condition causes the worsening government budget. The problem of limited capital accumulation often occurred in economy if the large number of savings were still in insignificant numbers, low saving effects on low investment levels. This causes led to low productivity levels and low income levels. On the other sides, state required substantial funds to carry out development in all sectors of the economy to support the stable economic growth, but there were obstacles, such as limited capital accumulation. Low capital accumulation will lead to a vicious circle (Todaro, 1994). Each state government should rely on the flow of internal and external capital in order that development can continue running and sustaining.

Debt as a last alternative in overcoming the budget deficit and the limited capital accumulation. Alternative debts is not only did by developing countries but also developed countries like America, Japan and other European countries for fear that the debt is no longer a taboo thing. The fundamental difference between the debt of developed and developing countries is form of debt. In developed countries, debts are obtained from securities or bonds. Dependence on debt is a worldwide phenomenon. It is not uncommon anymore and becomes a common possibility for most sectors in economy. Economists assume that the government debt is not a big problem. Doing loan can be a means to accelerate economic growth, especially when the government's financial resources had been insufficient and need to be supplemented by funds derived from foreign and domestic debts. From time to time, developing countries will need additional financing because of increasing debts. Harrod-Domar had opinions that foreign debt had a positive impact on economic growth because foreign debt can increase investment, income, and domestic savings.

Indonesia is a middle-income country. Until now, Indonesia has many problems such as low capital accumulation and balance of payments deficit, so that the government has been borrowing in tackling its budget deficit. One of ways is borrowing directly from the central bank. The other alternative ways are borrowing from commercial banks in the country, borrowing from non- domestic banks, borrowing from sources of foreign debt and issuance of securities and bonds. Indonesia is one of the countries affected by the financial crisis in 1997-1998 where economic conditions dropped which followed by massive debts.

Table 1: Total government debt and the GDP of Indonesia in 2008-2014

Year	Government Debt		Total Government Debt (Trillions Rupiah)	GDP Nominal (Trillions Rupiah)	GDP Per capita (US$)
	Loan	Debt Securities			
2008	730	964	1694	4949	2168
2009	611	859	1470	5606	2263
2010	617	964	1581	6446	3125
2011	621	1187	1808	7419	3647
2012	616	1361	1977	8230	3700
2013	714	1661	2375	9087	3624
2014	677	1931	2608	10094	3492

Source: The Ministry of Finance Indonesia and World Bank (2016), processed data.

Table 1 shows the total and portion of Indonesian government debt and government debt from 2008 to 2014. The total debt of the government of Indonesia has increased. In 2014, total government debt amounted to 2608 trillion rupiah. Portion of loans to government debt fluctuated during this period. In 2008 the government debt through loans reached 730 trillion rupiah, the magnitude of this figure due to the ongoing economic crisis. In 2009, loans decreased and fluctuated until 2012. And finally increased significantly to 714 trillion rupiah. In 2014, total loans, both domestic and foreign loans reached 677 trillion rupiah.

Generally, the portion of government debt securities to total government debt was likely to increase and more dominated than loans. Increasing debt securities significantly occurred in 2008 since Indonesia was affected by the economic crisis. In the end 2014, total government securities reached 1931 trillion rupiah. GDP per capita tended to increase in 2008 to 2012 but decreased in 2013 and 2014. Indonesia's GDP per capita reached about $ 3.492 in 2014, where GDP per capita and nominal GDP increased during those times. In fact, in addition providing some benefits to the government in solving budget deficit which is intended to boost economic growth, the debt has loss impacts to people. The total government debt which reached 2,608 trillion rupiah with Indonesia’s total population about 252 million people, every citizen in Indonesia has a debt, less than 10 million per citizen. Besides the government debt could begin the economic crisis in countries in which the debt could worsen economic conditions affected by the economic crisis. Sustainably increasing debt and insignificantly increasing national income will cause inflation and systemic disruption in the economic system. This situation may lead Indonesia to the vicious circle because the debt allocation’s strategies are not effective in productive sectors, and most of the government debts used to pay debts and interest payments. Achsani (2003) concluded that debts in dollars could begin economic crisis on countries and gave a very bad impact, it happened in Indonesia in 1997/1998. Sugema (2001) stated debts could be aggravating economic conditions to countries affected by economic crisis. Debts can increased budget deficits and would create more lending needs and Indonesia would be very difficult to get out from vicious circle. Debt could potentially give negative impacts. Based on the background, the purposes of this research are *first*, to analyze the development of budget deficits, government debts and domestic debt securities in Indonesia, and portion of ownership. *Second* to analyze the influences of domestic government debt securities to economic growth. Implementation of research is expected to provide a clear representation for government about the development and sustainability Indonesian's debt, to provide information for the government about influences of government debt between foreign and domestic Indonesia to economic growth. So the government has a view about debt and its impact on economic growth. Thus, the government is expected to be able to make right policies regarding foreign and domestic debts, and develops more effective lending strategies to solve budget problems in Indonesia.

2. Literature Review

Sheikh et al. (2010) analyzed the impact of domestic debt to economic growth in Pakistan in the period of 1972 to 2009. GDP as the dependent variable and the domestic debt, government expenditures, exports and worker remittances as the independent variables and they used ordinary least squares (OLS). The study found that domestic debt positively has effect to economic growth in Pakistan. This clearly indicates that funds generated through domestic debt loans have been used in part to finance government spending, which contributed to the GDP growth rate. The principle is that the debt in the country and abroad must be spent on long-term development goals.

Maana et al. (2008) analyzed the impact of domestic debt on the economy in Kenya. The author examined the impact of domestic debt in the private sector loans by using ordinary least squares (OLS) and the Generalized Method of Moments (GMM) for the period 1996 to 2007. The study also examined the effects of domestic debt in real output where the real GDP as the dependent variable and the independent variables include the Domestic Debt, Government Expenditure, Private Sector Credit, Broad Money Supply (M3), Expors and Impors. The study found that domestic debt does not lead to crowding out effect on private sector lending in Kenya during the period due to the substantial level of financial development in Kenya. Where the phenomenon of crowding out is a phenomenon that occurs when the fiscal policy causes interest rates to rise, thus reducing investment. The results showed that the increase of domestic debt has a positive effect but not significant to the economic growth during the period. This study suggested that the government should do a better reforms to promote investment to attract investors in the bond market.

Abbas and Christensen (2007) analyzed the impact of domestic debt on economic growth and ninety-three low-income countries from 1975 to 2004 period with the Granger Causality method regressions. The variables used were GDP income per capita, Private Saving Rate, Institution as a proxy for financial stability and development. Analysis showed that the domestic debt as a percentage of GDP has a positive and significant impact on economic growth, but if the debt level exceeds thirty-five percent of total bank deposits the domestic debt a negative impact on economic growth.

Adoufu and Abula (2009) investigated the impact of rising domestic debt in the Nigerian economy by using OLS technique using time series data from 1986 to 2005. As for the variables, namely GDP rill, Domestic Debt Outstanding, Domestic Credit, and Interest Rates. From this study indicated that some of the factors that increase domestic debt in Nigeria is the high budget deficit, a low-level output, an increase in government expenditure, the high inflation rate and low income. Analysis showed that domestic debt had a negative impact on economic growth and recommended that the government should make efforts to resolve the domestic debt is very high.

Checherita and Rother (2012) analyzed the impact of the average government debt to GDP growth per capita over a period of about 40 years ie from 1970 to 2009, in the twelve euro area countries. The variables in this study, namely GDP, private savings, public investment, total factor productivity and real interest rates. This study shows the negative impact of government debt on economic growth.

3. Research Methods

Type of data used in this research is secondary data. The data was taken from annual time series data with time periods from 1997 to 2014 in Indonesia. This research was conducted with Microsoft Excel 2013 and E-views 9.0.

The data obtained from the Global Financial Development Database (GFDD) and the Worldbank Development Indicators (WDI). Data was used including GDP per capita as a representation of economic growth, the government's domestic debt, official development assistance (ODA), government expenditures, gross fixed capital formation (GFCF), received remittances and total imports.

4. Methods of Analysis and Processing of Data

4.1. Descriptive analysis

Descriptive analysis is a simple form of analysis that aims to describe and facilitate interpretation with the support of graphs and tables to an observation. Descriptive analysis in this research is used to achieve the first objective, to see the development of budget deficits, total government debt and domestic debt in Indonesia.

4.2. Ordinary Least Square

This research uses data model, Ordinary Linear Regression (OLS). OLS is a regression equation describing the relationship between independent variables (x_1) and the dependent variable (y). Alleged relationship between independent variables and the dependent variable can be described as a straight line (Juanda, 2009). The closer the distance between the data points located on the regression line, the better our predictions. That is why the regression analysis was also known by the analysis of Ordinary Least Square (OLS) or the method of least squares analysis.

The model used to observe the effect of the government's domestic debt to the economic growth can be written as follows (Sheikh et al, 2010):

$$Y = \alpha + \beta_1 DD + \beta_2 ODA + \beta_3 GE + \beta_4 GCF + \beta_5 RE + \beta_6 Impor + \mu \quad (1)$$

Where:

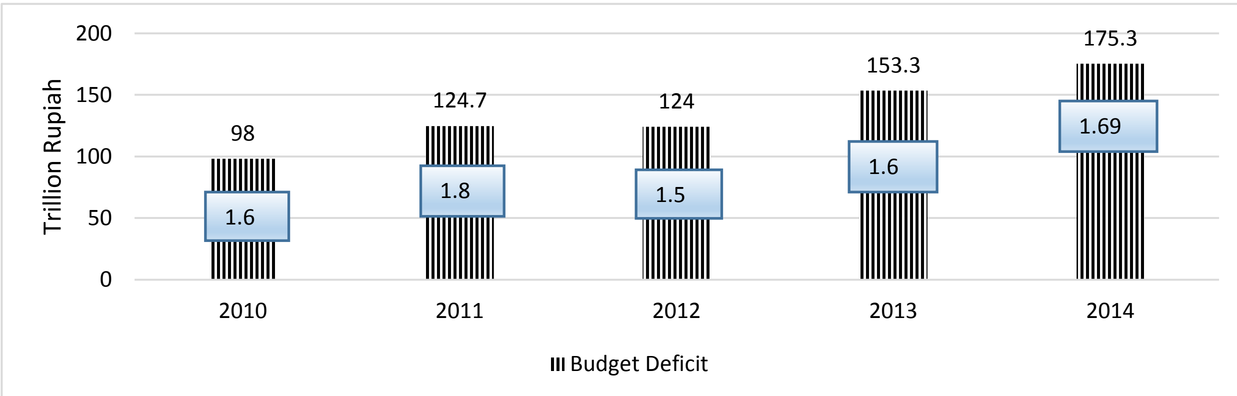
Y	:	Gross Domestic Product growth (GDP) (%)
DD	:	Domestic government debt securities (Ratio to GDP (%))
ODA	:	Official Development Assistance (Ratio to GDP (%))
GE	:	Government Expenditure (Ratio to GDP (%))
GCF	:	Gross fixed capital formation (GFCF) (Ratio to GDP (%))
RE	:	Receipt of remittance (Ratio to GDP (%))
$Impor$	:	Total imports (Ratio to GDP (%))
α	:	Intercept
$\beta_1 \beta_2 \beta_3 \beta_4 \beta_5 \beta_6$	:	Coefficient of regression
. μ	:	Coefficient of errors

5. Results and Discussion

5.1. Development of Budget Deficits, Total Government Debt, and Indonesia's Domestic Debt

The budget deficit described where the condition of state's revenue and expenditure (APBN) i.e expenditure greater than receipts. When a nation is in condition of budget deficit, so that a nation needed additional funds to implement the sustainable economy that have been planning. The effort for acquiring additional to cover deficit, is called deficit financing. The method of these efforts are such as seeking a loan or debt in the country and abroad, selling state's assets and acquaring aids or grants (Bafadal, 2005)

Figure 1 shows the huge budget deficit and the percentage of budget deficits to GDP during period 2010 to 2014. State's budget deficit increased significantly from year to year. In 2010, budget deficit was recorded 1.6 percent or approximately 98 trillion rupiah. In 2014, budget deficits went up about 75 percent in which their reached 175.3 trillion rupiah or around 1.69 percent of GDP. Budget deficits increased because needs of debt financing increased to cover budget deficits. This phenomeon can look in table 2, in which during the last 5 years from 2010 to 2014, total debt financing experienced significant increasing. In 2010, total debt financing amount to 87 trillion rupiah. And in 2014, has increased nearly 200% to 253.7 trillion rupiah.



Source: Ministry of Finance Republic of Indonesia, 2016

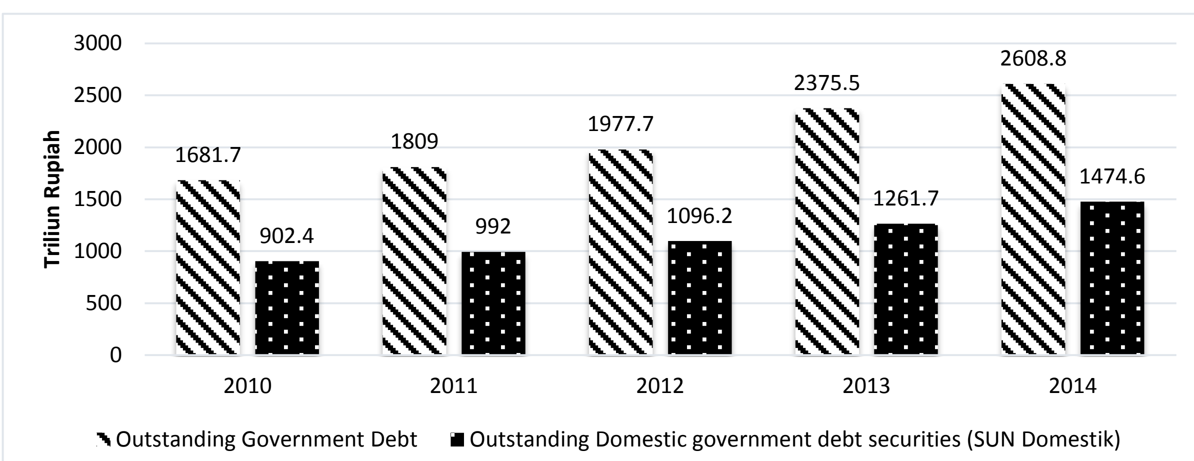
Figure 1: Quantity and percentage of budget deficit 2010-2014

Table 2: Development of debt financing period 2010-2014 (Trillion Rp)

Parts	LKPP				State Budget 2014
	2010	2011	2012	2013	
I. Securities Neto	91.1	119.91	159.7	224.7	265.0
II. External Debt Neto	(4.5)	(17.8)	(23.5)	(5.8)	(13.4)
III. Domestic Debt Neto	0.4	0.6	0.8	0.5	2.2
Total	87.0	102.7	137.0	219.3	253.7

Source: Ministry of Finance Republic of Indonesia, 2016

Increasing budget deficits occur because of two main reasons: *First*, government expenditure had increased because of the essential fulfillment, such as subsidy which has not been deleted. Every year, education budgets recquired about 20 % of the total national budget. *Second*, because of corruption by irresponsible people (Lesmana, 2008).
Originally, publishing debt securities by government was designed to implement recapitalization and restructuring program of banking because impact of financial crisis that strucks Southeast Asia monetary in 1997. However, publishing debt securities further evolved to this point, it is considered as one of the effective ways to encounter needs of financing budget due to rising budget deficits. The role of debt securities as source of budget financing can be seen through issuance of debt securities in figure 2 in below.



Source: Ministry of Finance Republic of Indonesia

Figure 2: Development of government debt & domestic government debt securities 2010-2014

In 2010, the total government debt reached 1682 trillion rupiah and the issuance of domestic securities reached 902.4 trillion rupiah and increased in 2011 from 128 trillion rupiah into 1809 trillion rupiah whereas publishing domestic debt securities rose from 89.6 trillion rupiah into 992 trillion rupiah. Government debt sharply rose in beginning 2009 because the a policy which must allocate 20 percent of the state budget to the education budget in accordance with article 31 paragraph 4 of the Constitution of 1945. In 2012, total government debt reached about 1977.7 trillion rupiah and publishing domestic government debt securities reached 1096.2 trillion rupiah. In 2013, total government debt and the issuance of domestic government debt securities were experiencing a significant increasing in which total government debt increased from 98 trillion rupiah to 2375.5 trillion rupiah and publishing domestic government debt securities was increased by 165.5 trillion rupiah to 1261.7 trillion rupiah. Significant improvement occurred because of shock impacts of economic crisis in some European countries and other worldwides. In 2014, total government debt been 2608.8 trillion rupiah risen from 233.3 trillion rupiah and domestic government debt securities been 1474.6 trillion rupiah rose by 212.2 trillion rupiah. This enhancement happened because one factor, namely organized and held for election of the President of Republic of Indonesia so requires fairly high budgets.

The percentage of domestic government debt securities to total of government debt from 2010 to 2014 rose per year, on average above 50 percent. That can be summed up in the form, domestic debt is still a main source for budget deficits financing and debt payment.

5.2. Analysis of the influence of Domestic Government Debt against/towards Indonesia's Economic Growth

5.2.1. Testing Statistical Criteria

The coefficient of determination R-*Square* (R^2) is a test used to measure and see how extent the great diversity which can be explained by independent variables to the independent variable. This test is also used to see how strong the variables included in the model and can explain the model. The basic properties of R-Square is a quantity that always is positive but smaller than one ($0<R^2<1$). If the R-squared value close to one, the better the model used. Based on the current estimates in table 3, the R-*squared* value of 0.9202. This values show that 92.02 percent change in the dependent variable, economic growth can be explained by independent variables and the rest 7.98 percent is explained by other variables outside of the model.

F-test performed to evaluate effects of all independent variables on the dependent variable which is called significance tests models. Or measure the goodness of fit of the regression equation. This testing is done by comparing the F-statistic with F-table with a certain level of significance. These statistics test the significance tests in one direction. The results of estimation on table 3 shows that the value of the probability of the F-statistic of 0,000019 is smaller than the real level of 5%. It can be concluded that there is at least one independent variable that influences economic growth in the model on a confidence level of 95 %.

T-test or partial test is performed to determine each independent variable significantly effects on the dependent variable. The results of estimation on table 3 shows that all the variables are independent, domestic debt, ODA, government spending, capital formation, the receipt of remittance and total imports have real and significant effects to the dependent variable i.e. economic growth.

5.2.2. A Classic Assumption Test Results

The results of the estimation of the output of the Ordinary Least Square (OLS) obtained using growth in GDP per capita as the dependent variables are as follows:

(1) Normality Test
Normality test referred to in classical assumptions of the OLS approach is the residual formed normally distributed linear regression model, not the independent variable or the dependent variable. The null hypothesis used is normally distributed residuals. If the value of the *Jarque-Bera* probability is greater than the significant level, the null hypothesis is not rejected, so residuals have a normal distribution because the value of the *Jarque-Bera statistic* approximate to zero.

(2) Autocorrelation Test
Autocorrelation test aims to see and detect a correlation between one of residuals with other residuals. To detect the presence of autocorrelation in the OLS can be used the *Durbin Watson* or serial correlation LM test. Research on the model for detecting correlation using serial correlation LM test, where can be viewed from the value of the probability of *chi-squared (2)*. If the value of the probability of *chi-squared (2)* larger than the real level 5%, then the model is contained no autocorrelation. Based on the results of the test value probability *chi-squared (2)* by 0.4602, larger than the real level of 5%. The conclusion to be drawn that the models unrestricted from the problem of autocorrelation.

(3) Heteroskedasticity Test
Heteroskedasticity test aims to test whether the model regression recidual of variance inequality occurs from one observation to another observation. To detect the presence of heteroskedasticity in the model regression was the method of *White's heteroskedasticity test*. If the value of the probability of *chi-square* on *Obs * R-squared* is greater than the real level, then the model is independent of the issue of heteroskedasticity. The test results show that the probability of *chi-square* on *Obs * R-squared* of 0.3198, larger than the real level of 5%. Can be summed up this model is independent from issue of heteroskedasticity.

(4) Multicollinearity Test
Multicolinearity is the linear relationship among the independent variables in a multiple linear regression model (Gujarati, 2003). Testing is done by the calculating value of correlation coefficient among independent variables. If value of correlation coefficient is less than 0.8. Then there is no multicollinearity or no linear relationship among independent variables. Based on the results obtained, the value of the correlation coefficient is less than 0.8. So it can be inferred that the model is permitted from multicollinearity problem.

Analysis of influences of the government's domestic debt through publishing domestic government debt securities can be seen in table 3 below:

Table 3: Estimation Results of Ordinary Least Square (OLS)

Variable	Coeffisient	Prob.
Domestic government debt securities	0,360972*	0,0015
ODA	-5,335599*	0,0166
Government Expenditure	-4,280293*	0,0020
Gross fixed capital formation	0,417694*	0,0133
Receipt of remittance	5,435795*	0,0024
Total imporys	-0,797695*	0,0003
C	40,46778*	0,0038
R-squared	0,920243	
Adjusted R-squared	0,876739	

F-statistic	2,115,304
Prob (F-statistic)	0,000019

Information: Significant on real level 5 percent (*)

Based on estimates OLS model in Table 3, the government's domestic debt through debt securities has a positive and significant effect on the real level of 5 percent to economic growth. The influence of government's domestic debt securities to economic growth by 0360, meaning that any changes in the domestic debt increase 1 percent, the economic growth will increase 0.360 percent. These results are in accordance with the theories and hypotheses. The reason is that a substantial degree of financial development in Indonesia has begun to develop in which, the development of the domestic debt securities has highly been growing from year to year.

The debt was essential to finance the budget deficit and government expenditure. Can be demonstrated in Table 1 that the proportion of publishing debt securities to total government debt is much greater than the loan. And in figure 2 demonstrates the proportion of domestic securities through the publishing securities to total government debt on average above 50 percent. It concluded that the domestic debt in the form of the publishing of government securities is still the main source of state's budget financing and covers the budget deficits and debt repayment. This is happening because financial markets and capital markets in Indonesia have efficiently been developing in market activities, the role of the securities market considerably is so strategic. That is, the profit rate of the domestic debt securities, as a risk-free financial instruments, used by traders as a reference tool in determining profitable levels of the investment or other financial assets. Publishing government's debt securities have benefits:

1. Provide opportunities and greater participations for investors to diversify their investment portfolio used to minimize investment risks.
2. Support to create good governance because transparent levels in financial informations are high in capital markets.
3. Help the realization of a stable financial system because reduced systemic risks due to decreasing dependence on capital from the banking system.

Benefits received from domestic debt will attract optimal community participations in national development financing programs through management mechanisms of the state budget. Increasing public participations will boost domestic investors, so that investment levels will increase. It can also create macroeconomic stability and reduce external monetary shocks. Allows the government to carry out development with the support of relatively greater capital, without the effect of increasing general price levels. Thus, the government can conduct fiscal expansions to enhance national economic growth. The increasing rate of economic growth means increasing national income and allows for increasing per capita income and economic growth. This hypothesis is consistent with the theory that is based on the keynessian curve showing that when there is capital derived by debts, it will create increasing domestic capital. The increasing capital will increase domestic capital supplies used to carry out development supporting the domestic economy. Improving economic development will certainly increase national output, increasing output would certainly encourage economic growth (Mankiw 2000). These results are consistent with studies: Sheikh et al. (2010), Maana et al. (2008), Abbas and Christensen (2007) which analyzed the impact of domestic debt on economic growth. They stated that domestic debt positively affect to economic growth. This clearly shows that funds spawned through domestic debt made domestic capital increase. Investments that is increasing the capital accumulation were used in part to finance government expenditure and contribute to GDP rates. The principle is domestic debt used to long-term development goals.

Official development assistance (ODA) has a negative and significant effect on the real level of 5 percent to economic growth. The influence of ODA to economic growth -5335, meaning that every change in ODA increased 1 percent, the economic growth will fall 5.335 percent. ODA is loans from developed countries that are members of the Development Assistant Committee (DAC) of the Organization of Economic Cooperation and Development (OECD) to developing countries as assistance flows. According to the initial hypothesis and theory, ODA should have a positive effect on economic growth, but the result in this study ODA have significantly negative effect on economic growth.

The first reason, this happens because ODA is considered as the Indonesian government's foreign debt, where the debt is given to creditor countries by a foreign currency or currency debtors. So government is damning in payments of debt and interest charges and must use foreign, not rupiah. Foreign debt can begin the economic crisis in the country. Achsani (2004) concluded that debt in dollars could give a bad impact, the banking systems will not involve crisis if they implement a fixed currency regime and had a compulsion to pay the debt in local currency. In such case, the central bank had strong credibility to repay the debt in a currency that it controlled. However, if the currency rate is made floating and the compulsion to pay the debt in dollars, it is possible that the country will experience a financial crisis when the currency exchange rate collapsed suddenly, this is what happened in Indonesia in 1997 to 1998. Foreign debt can also aggravate the condition of the country's economy affected by the economic crisis. Sugema (2001) concluded that in a country when the economy goes well, the foreign debt did not become barriers and problems. But once the financial crisis occurred, the ability to repay the debt to be reduced because of the worsening state of the debt due at the time of economic crisis. In other words, debt is a good time friend, bad time enemy. As a result of foreign debt caused the crisis could lead to risk of capital flights and reduced the influence of these countries around the world. Second, foreign debt allocation strategies is not effective in the productive sectors, plus most debts used for debt repayment and interest payments. Increasing debt without sustainable and increasing national income, it will lead to inflation and systemic disruption in the economic system. Debt can increase the budget deficit which will create needs for borrowing, thus countries difficulty out from dependence on foreign debt.

Government expenditure has a negative and significant effect on the real level of 5 percent to economic growth. Effect of government expenditure on economic growth at -4280, meaning that every change in government expenditure rise 1 percent, it will decrease economic growth 4,280 percent. The possible reason of the test results is the high government expenditure which makes slowdown in overall economic performances. Sometimes politicians and governments increase expenditures and investments in not productive projects, programs, assets and items. Thus, the allocation of government expenditures resulted in misallocation of resources that is hindering economic growth. Ramayandi (2003) examined the effects of government expenditure to economic growth and found a negative effect on economic growth. Regular government expenditure was considered as unproductive expenditures, having a negative impact on economic growth, Government's development expenditures was considered as productive expenditure had a negative impact on economic growth in Indonesia. Research Manalu (2005) concluded regular government expenditures negatively affect Indonesia's economic growth and development expenditures had a positive impact on economic growth. In fact, regular budget allocations have not been implemented directly and the policies not be adjusted with real needs that are necessary for the smooth operations of government. More government expenditure is spent on paying interest and repayments of debt, especially to the foreign debt. These results are not in accordance with the initial hypothesis in this study.

Gross Fixed Capital Formation (GFCF) has a positive and significant impact on the real level of 5 percent to economic growth. Effect of capital formation to economic growth 0.417, meaning that any changes in capital formation rise 1 percent, the economic growth will increase 0.417 percent. Capital formation is important in the economy of a country, because capital formation can increase output and stimulates the economy. Besides capital formation has a direct effect on the economy of a country, so that spending on capital formation effect on economic growth. These results are consistent with studies that had done by Belmimoun et al. (2014), researcher found that there was a positive relationship between capital formation and economic growth. Harrod Domar growth theory also stated that capital expenditures may spur economic growth. In addition, capital formation also has direct relationships with the large of national incomes or outputs.

Receipt of remittance has a positive and significant effect on the real level of 5 percent against economic growth. The influence of the receipt of remittance to economic growth is 5,435, meaning that changes to the receipt of remittance rise 1%, then it will raise economic growth 5,435 percent. Receipt of remittance through moneys are sended by Indonesian labors who work in abroad. Receipt of remittance can positively affect economic growth through a number of channels. *First*, remittances can reduce credit constraints of household receipts and will increasing private investment and entrepreneurial activities (Yang, 2004), (Woodruff and Zenteno, 2004). In developing countries, households face inefficient financial markets, so that there is the presence of distrust towards access to credit markets. Remittancesnflows could help households to adjust their entrepreneurial activities and also help to finance education and health which are the primary variable in improving long-term economic growth. *Second*, households that receive remittance will obtain more information regarding formal financial institutions that are able to provide assistance to improve their investment levels. Receipt of remittance will encourage savings and investment so as to encourage economic growth. Many studies showed a positive relationship between household investments and receipt of remittance. For example, Adams and Cuecuecha (2010) who found a positive impact between remittance receipts and economic growth.

Total imports has a negative and significant effect on the real level of 5 percent to economic growth. Effect of total imports to economic growth amounted to -0797, meaning that any changes in the total import rise by 1 percent, the economic growth will fall by 0.797 percent. The negative influences because import is doing for domestic consumptions will reduce total revenue of the country. When a country imports goods from other countries, it will reduce the reserves of countries. The large of reserves that is reduced because of costs incurred for the payment of goods already imported from other countries. Decreasing in the large of reserves would hamper and even reduce economic growth.

6. Conclusion

Based on the results of this research that had been discussed in the previous chapter, then can drawn the conclution, among other things, The state budget deficit significantly increased over the last 5 years. Domestic government debt securities is considered one of the effective ways to encounter the needs of budget financing because of rising budget deficits. Domestic debt had increased over the last 5 years with the proportion of domestic government debt securities to total government debt on average is above 50 percent, greater than the loans. Domestic government debt securities is still the financial source to close deficits and repayments. Publishing domestic government debt securities to public, is one of potential financings to reduce financial burden and financial risk for the state in the future. The ordinary least square analysis results show that the domestic government debt securities have positive and significant effect to economic growth, while official development assistance (ODA) has a negative and significant effect to economic growth. Other variables such as capital formation and receipt of remittance have positive effects and significantly to economic growth, total imports and government expenditure have a negative and significant effect to economic growth.

7. Suggestion

The government should focus with budget financing through the publishing domestic government debt securities which has a positive impact. Government needs to do more for an efficient financial system, so that it can promote the domestic government debt securities to appeal domestic investors in the financial markets. The government should optimize the role of banks and other financial institutions in basic introduction and service of domestic government debt securities to entice citizen to participate. The goals are to dominate domestic ownerships of domestic debt securities because in 2014, foreign ownerships dominates amount 38.13 percent. It different from developed countries. So that goals to realize self-reliance in dealing with debt problems and get out from dependency foreign debt. The government should reduce dependence to official development assistance (ODA) which has negative impact. The foreign debt make it difficult to out from the vicious circle.

References

Abbas, A., & Jakob C. (2007). The Role of Domestic Debt Markets in Economic Growth: An Empirical Investigation for Low-income Countries and Emerging Markets. *IMF Working Paper*, 7, 127.

Achsani, N.A., and Siregar, H. (2007). Financial and Economic Integration: Experience of the EU and Future Prospect of ASEAN+3. In Dong, L and G. Heiduk (Eds), *The EU's Experience in Integration: A Model for ASEAN+3?*, Peter Lang, Bern - Switzerland..

Adofu, I., & Abula, M. (2010). Domestic Debt and the Nigerian Economy. Current Research *Journal of Economic Theory*, 2(1), 22-26.

Barro, Robert J. (1974). Are Government Bonds Net Wealth. *Journal of Political Economy*, 82, 1095-1117.

Bank of Indonesia (2016). downloaded on February 2016-March 2016. Retrieved from: http://www.bi.go.id.

Checherita, C., & Rother P. (2012). The Impact of High Government Debt on Economic Growth and its channels: An Empirical Investigation for The Euro Area. *European Economic Review*, 56, 1392-1405.

Ministry finance of Indonesia (2016). downloaded February 2016- March 2016. Retrieved from: http://www.djppr.kemenkeu.go.id.

Firdaus, M. (2011). *Aplikasi Ekonometrika untuk Data Panel dan Time Series*. Bogor, ID: IPB Press.

Fry, M. (1997). *Emancipating the Banking System and Developing Markets for Government Debt*. London: Routledge.

Global Financial Development Database (2016). Downloaded on March 2016. Retrieved from: http://data.worldbank.org/data-catalog/global-financial-development/

Mulyadi, J. A., & Andri, Y. (2007). *Dasar-dasar Ekonometrika* (Essentials of Econometrics 3rd). Jakarta, ID.: Penerbit Erlangga.

Juanda B. (2009). *Ekonometrika Pemodelan dan Pendugaan*. Bogor , ID: IPB Pr.

Maana, I., Owino R., Mutai, N. (2008). Domestic Debt and its Impact on the economy – The Case of Kenya paper presented during the 13 thAnnual African Econometric Society Conference in Pretoria, South Africa.

Mankiw, N.G. (2007). *Macroeconomics 6th edition*. South-Western Cengage Learning

Singh, C. (1999). Domestic Debt and Economic Growth in India. *Economic and Political Weekly*, 34(23), 1445-1453.

Sheikh, M., Faridi, M., & Tariq, K. (2010). Domestic Debt and Economic Growth in Pakistan: An Empirical Analysis. *Pakistan Journal of Social Sciences*, 30(2), 212-133.

Sugema, I. (2001). Utang Luar Negeri: Good time friend, bad time enemy. *Economy Recovery Research Fakultas Ekonomi dan Manajemen*, 7(1), 23-32.

Todaro, M.P., & Smith, S.C. (2006). *Economic Development* (9th edition). Addison-Wesley Series in Economics.

World Bank (2015). Downloaded on December 2015. Retrieved from: http://data.worldbank.org/data.