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Analysis of Factors Affecting Foreign Debt in Indonesia (Case Study 1990-2023)

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ABSTRACT

This research aims to determine the factors that influence foreign debt by using data on foreign exchange reserves, exchange rates, and interest rates on Indonesia's foreign debt for the period 1990-2023. The data used in this research was obtained from the official websites of the Ministry of Finance of Indonesia, the Central Bureau of Statistics (BPS), and Bank Indonesia. This research uses multiple linear regression analysis. The results of this research show that foreign exchange reserves, exchange rates, and interest rates simultaneously influence Indonesia's foreign debt. Partially, foreign exchange reserves have a positive and significant effect on Indonesia's foreign debt, the exchange rate influences Indonesia's foreign debt, and interest rates have a positive effect on Indonesia's foreign debt.

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INTRODUCTION

Indonesia is a developing country that is currently focusing on national economic development. On the one hand, the economic development of a country requires the accumulation of relatively large funds. Apart from efforts to raise funds, many people experience obstacles in collecting capital for development (Pasaribu & Septriani, 2021). Sources of capital can be sought from within the country or abroad, these things are the basis for collecting funds for development. Efforts to raise funds from within the country for developing countries tend to be more difficult to believe. In general, many developing countries depend on foreign debt as capital for their development (Kurniasih, 2021; Yudha et al., 2023). Of course, this debt will have an impact on the national balance of payments in the long term. If you rely too often on borrowing large amounts of funds from other countries, a foreign debt crisis will occur (Ratag et al., 2018).

Efforts to raise funds obtained from within the country for developing countries tend to be relatively more difficult to rely on. This is because the voluntary savings entrusted to financial institutions are still relatively small compared to the amount of funds needed for development purposes (Amhimmid et al., 2021; Brafu-Insaidoo et al., 2019; Kim et al., 2020). Apart from that, the traditional mindset of society will also have an impact on weak public trust in financial institutions (Gandhi et al., 2022).

The existence of foreign debt has an impact on the Indonesian state. In the short term, foreign debt can have an impact on economic growth, because having state debt abroad can correct the development and economic growth situation so that it improves and helps the government in its efforts to close the APBN deficit (Ali, 2023; Chandera, 2023; Kebede et al., 2023). However, in the long term, the government will be burdened with credit payments and foreign debt interest which continues to increase every year. The accumulated foreign debt and interest will be paid through the APBN using the installment method each fiscal year. So only a small amount of the APBN is used for development (Junaedi et al., 2022; Sazali, 2020).

Based on data from the central statistics agency, the ratio of Indonesia's debt to gross domestic product (GDP) in the last ten years has fluctuated. The lowest debt ratio occurred in 2016 at 25%, while the highest occurred in 2021 at 44%. In the dependency theory put forward by Raul Prebisch, adherents of the theory of neomarxism explain that foreign debt in the short term increases economic growth but in the long term (5 to 20 years) it will inhibit economic growth. The more a country relies on foreign debt, the greater the difference in income will be and in turn, the government's economic development will not be achieved. Foreign debt will cause problems if it is not used for productive activities that produce a high rate of return on foreign exchange for payment of debt burden installments and debt interest.

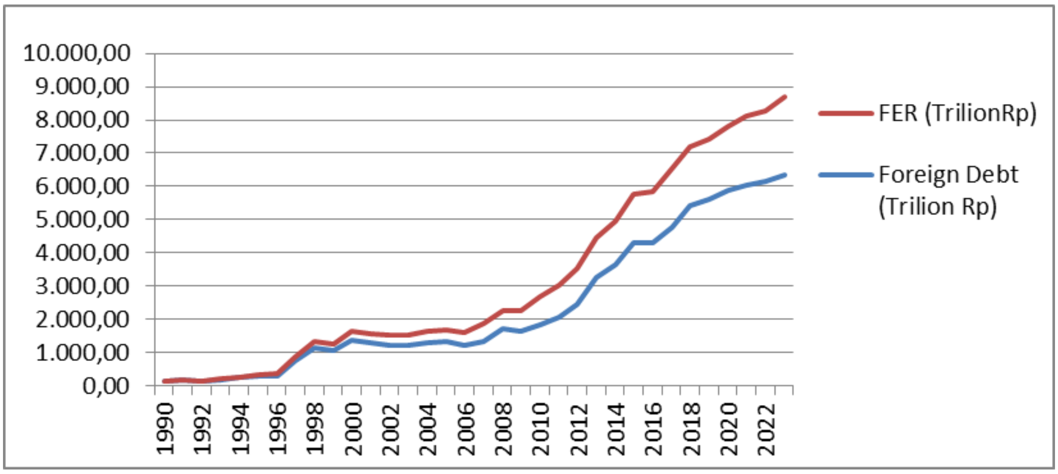

Figure 1 Development of Indonesia's Foreign Debt and Foreign Exchange Reserves (FER) from 1990-2023

Based on the table above, it can be concluded that from 1990 to 2023, Indonesia's foreign debt tends to increase. In fact, in 2023 it will reach the highest figure, namely 6,349.22 trillion. Meanwhile, the lowest figure was recorded in 1992, namely 121.97 trillion. This indicates that Indonesia is still dependent on foreign debt because revenues from taxes and other revenues are insufficient to finance government spending. Thus, foreign debt is still one of the factors that determine the fiscal sustainability of a state budget. Foreign debt is likely to remain an inseparable part of the Indonesian economy for a long time. The problems that cause foreign debt to balloon, such as a large budget that continues to become a deficit and the need for funds for development which is so large, make foreign debt unavoidable as well as principal and interest payments on foreign debt that are due, which results in an increase in foreign debt, which is significant (Cahyaningrum et al., 2022).

The accumulated amount of foreign debt and interest is a large burden on a country's foreign exchange reserves because payments are made in foreign currency. Foreign exchange reserves also act as a monetary policy instrument; as a liquidity buffer in the event of an international financial market crisis; and as an instrument to mitigate vulnerability to external shocks and strengthen financial market stability and confidence in times of financial crisis (Pasaribu et al., 2023). Apart from that, the accumulation of foreign exchange reserves also makes a significant contribution to the economic growth of developing countries (Pradikta et al., 2024). This is caused by the accumulation of foreign exchange reserves that are undervalued relative to the real exchange rate, thus facilitating and activating an export-driven growth orientation. Therefore, foreign exchange reserves aim to save capital and provide liquidity to meet a country's foreign exchange reserve needs. Foreign exchange reserves are the debtor's main indicator of the country's ability to pay back the amount of its foreign debt (Kebede et al., 2023; Osifalujo et al., 2022; Wahyuningsih & Ningsih, 2019).

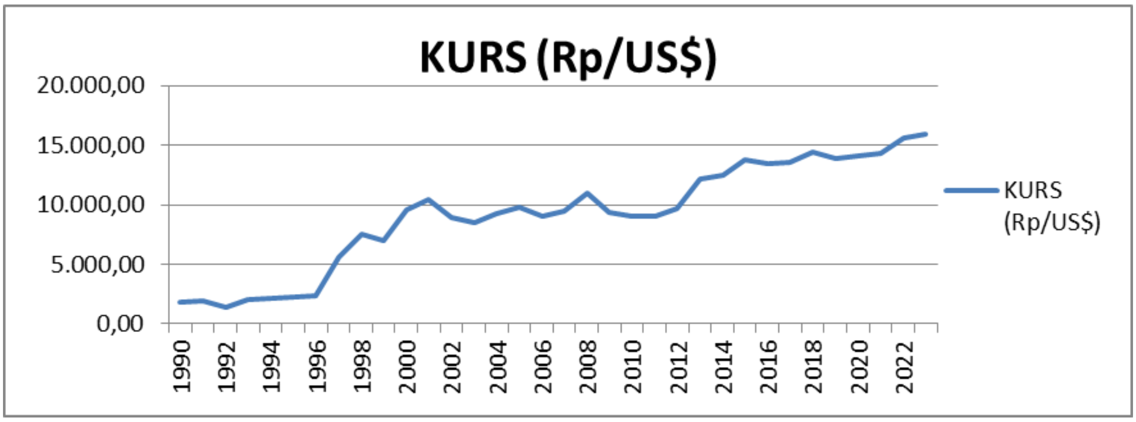

Figure 2 Development of the Rupiah Exchange Rate against the Indonesian US Dollar from 1990-2023

The exchange rate is an important indicator for a country's economy. Fluctuating exchange rate mobility will influence people's behavior in holding money and also influence a country in stabilizing its country's economy (Daud et al., 2022; Meilani, 2022). Indonesia, as an adherent of a floating exchange rate system, also experiences unstable exchange rate movements. The instability of the rupiah exchange rate will also affect the domestic economy (Rahim et al., 2019). The instability of the rupiah exchange rate will also affect the domestic economy. In Indonesia, this has also created a crisis of public confidence in the rupiah, causing people to flock to dollars to secure their wealth (Gregory Mankiw, 2012). With the economic crisis, Indonesian banking performance will continue to show worsening developments. The crisis was characterized by a decline in Indonesian government revenues and a sharp increase in government spending on social influence. As a result, the Indonesian government is entangled in heavy debt to cover the state budget deficit (Dilah et al., 2018).

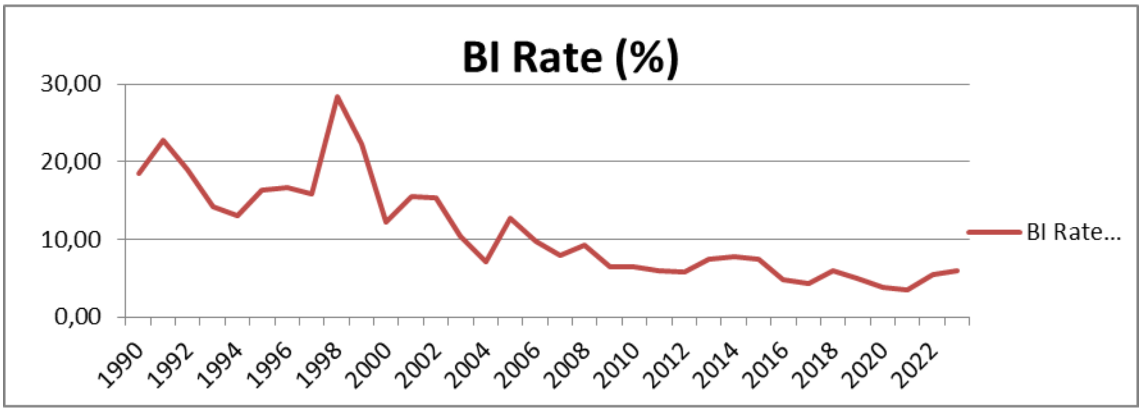

Figure 3 Development of Interest Rates in Indonesia from 1990-2023

Interest rates are also important in a country's economy. Bank Indonesia stabilizes the exchange rate, one of the ways is by controlling interest rates. Interest rates influence the behavior of people who hold money and also affect the stability of a country's economy. Foreign loans include a grace period interest rate (loan repayment period is optional) as well as a period for repayment of the principal. According to Ganguly (1980), high public debt affects interest rates, which can change the level of savings, investment, and consumption (Afandi, 2022).

From the explanation above, the government is still unable to escape the trap of foreign debt in national development. Therefore, the researcher wants to explain that the variables of foreign exchange reserves, exchange rates, and interest rates are factors that can influence the burden of foreign debt in Indonesia. This research had to be carried out because it wanted to know the extent of the position of foreign debt in Indonesia. Therefore, the author is interested in the title "Analysis of Factors Affecting Foreign Debt in Indonesia (Case Study 1990-2023)". Regarding the background and problem formulation, this research aims to determine the influence of foreign exchange reserves, exchange rates, and interest rates on foreign debt in Indonesia.

LITERATURE REVIEW

Foreign Debt

In general, developing countries use foreign debt as capital to cover budget deficits and dependence on funds from abroad will lead to a foreign debt crisis. The large debt repayment burden borne by the Indonesian government will hamper national development. Foreign debt will create problems if it is not used for productive activities that create high levels of foreign exchange to pay installments and debt interest.

Based on the Law of the Government of the Republic of Indonesia No. 2 of 2006 concerning procedures for procuring loans and/or receiving grants as well as transferring foreign loans and/or grants, what is meant by debt or loan is any state revenue either in the form of foreign exchange and/or foreign exchange converted into rupiah, Rupiah or in the form of goods and services obtained from foreign lenders that should be repaid under certain conditions.

The dependency theory (dependency) put forward by Raul Prebisch, a follower of the theory of neomarxism, reveals that foreign aid is used by rich countries to impact domestic and foreign relations by recipients of foreign debt, embracing local political elites in countries receiving foreign debt for the purpose of commercial and national security (Latumaerissa, 2015).

Foreign Exchange Reserves

Foreign exchange reserves are defined as all foreign assets controlled by the monetary authority that can be used at any time to finance balance sheet imbalances. The more foreign exchange the government and residents of a country have, the greater the country's ability to carry out international economic and financial transaction activities and the stronger the country's currency.

Echange Rates

Indonesia, as one of the countries that carries out foreign loans, experiences difficult situations when there are exchange rate fluctuations every year. This is because the loan value is calculated in foreign currency, even though principal and loan interest payments are calculated in rupiah. If the rupiah exchange rate decreases (depreciates) against the US dollar, then what will be paid will also increase and this will burden the budget because principal credit payments and interest on loans taken from the budget will increase, more than what was originally budgeted or in other words payments foreign debt will soar (Sukirno, 2019). Thus, soaring foreign debt payments will increase the state budget deficit.

If the rupiah exchange rate decreases (depreciates) against the US dollar, then what will be paid will also increase and this will burden the budget because principal credit payments and interest on loans taken from the budget will increase, more than what was originally budgeted or in other words payments foreign debt will soar. The decline in the rupiah exchange rate has resulted in high principal and interest payments on Indonesia's foreign debt.

Interest Rates

The BI interest rate, which is often called the BI rate, is a reference for determining interest rates which can reflect the monetary policy position decided by Bank Indonesia and then announced to the public (Bank Indonesia, 2023). Commercial banks in Indonesia use the BI interest rate as their basic interest rate. According to Sadono Sukirno (2019), when interest rates increase, working capital decreases because debt repayment costs arise.

Interest rate is the interest rate expressed as a percentage over a certain period of time (monthly or annually). According to Keynes' theory, interest rates are determined by the demand and supply of money. According to this theory, there are three reasons why people want to carry cash: transactional, precautionary, and speculative motives.

Analysis Framework

Foreign debt functions as a complement, but in its development foreign debt has increased and is used as the main factor in the development financing process. During the economic crisis, the amount of external debt of the Indonesian government has increased quite drastically. There are several factors that can influence Indonesia's foreign debt, namely foreign exchange reserves, exchange rate and interest rates.

Foreign debt as a dependent variable is influenced by foreign exchange reserves, exchange rate and interest rates as independent variables. Schematically, a picture of the framework for this research can be seen in the picture below.

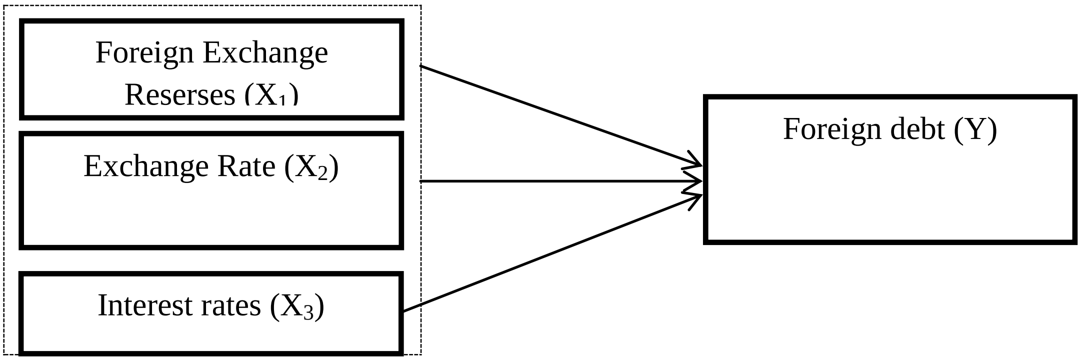

Figure 1: Research Framework

Description:
The line indicates the influence

RESEARCH METHODS

Data Types and Sources

The type of research carried out is quantitative research. The data used in this research is secondary data in the form of a time series for the period 1990 to 2023. Data obtained from the official websites of the Ministry of Finance of Indonesia, the Central Bureau of Statistics (BPS), and Bank Indonesia. The object of this research is Indonesia and the population of this research is foreign debt in Indonesia (Y) as the dependent variable, while foreign exchange reserves (X1), exchange rate (X2), and interest rates (X3) are the independent variables.

Variables and Operational Definitions

1. Research Variables

   Variables are research objects, or what is the point of attention of a study. The dependent variable in this research is foreign debt and the independent variables in this research are foreign exchange reserves, exchange rates, and interest rates.

2. Operational Definition

   The operational definition used in this research is:

   a. Foreign Debt

      The foreign debt used in this research is Indonesia's total foreign debt to other countries from 1990-2023 in trillions of rupiah.

   b. Foreign Exchange Reserves

      The foreign exchange reserves used in this research are the total money reserves of the Indonesian state from 1990-2023 in trillions of rupiah.

   c. Exchange Rate

      The exchange rate used in this research is a comparison of the Rupiah exchange rate against the American currency (USD) from 1990-2023 in units of IDR/US$.

   d. Interest Rate

      The interest rate used in this research is a percentage of the cash value, the amount of which is determined by Bank Indonesia from 1990-2023 in percent units.

Data analysis technique

In the research carried out, the data analysis technique used a multiple linear regression analysis model, where hypothesis testing was then carried out using the t-test and f-test to assess the influence of foreign exchange reserve variables, exchange rates, and interest rates on Indonesia's foreign debt. The following is a multiple linear regression model:

$$ULN = \alpha + ß1X1 + ß2X2 + ß3X3 + \mu$$

Information:
ULN = Foreign Debt
X1 = Foreign Exchange Reserve (FER)
X2 = Exchange Rate
X3 = Interest Rate
ß1,ß2,ß3 = Regression Coefficients
α = Constant
μ = standard error

RESEARCH RESULTS

It can be concluded that the results of the testing data used are normally distributed.

Coefficient of Determination Test Results

Table 1 Results of Multiple Linear Regression Analysis

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate
1	,991[a]	,981	,980	295,58050

Source: Output SPSS Versi 25 (2024)

Based on the results of testing the coefficient of determination which states that the R Square is 0.981 or 98.1%, it can be concluded that this means that the percentage contribution of the independent variable government revenue, government expenditure, and foreign exchange reserves to the dependent variable of foreign debt is 98.1% while the remaining is 1.9% affected by every other variable that is not included in this model because many factors influence foreign debt.

F Test Results

Table 2 Results of Multiple Linear Regression Analysis F Test

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	138474268,8	3	46158089,60	528,319	,000[b]
	Residual	2621034,980	30	87367,833		
	Total	141095303,8	33			

Source: Output SPSS Versi 25 (2024)

Based on the output results obtained from the F calculation, it is 528.319. The F table value can be seen from the statistical table at a significance level of 0.05 and degrees of freedom (df) 1 (number of variables-1) = 3 and df 2 (n-k-1) or 34-3-1 = 30, the results obtained in the F table which is worth 2.9223. Because F calculated > F table (528.319 > 2.9223) then Ho is accepted. Thus, it can be concluded that together (simultaneously), the independent variables foreign exchange reserves, exchange rates, and interest rates have a significant influence on the dependent variable foreign debt.

Based on the significance, if the significance is <0.05 then the null hypothesis (Ho) is accepted, whereas if the significance is >0.05 reject Ho. Because its significance in the F test is <0.05 (0.00 <0.05), it is accepted. Therefore, it can be concluded that government revenues, government expenditure, and foreign exchange reserves have a significant and simultaneous influence on foreign debt.

T Test Results

Table 3 Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig	Tolerance	VIF
1 (Constant)	-778,817	274,273		-2,840	,008		
Foreign Exchange Reserve(X1)	2,640	,154	,959	17,176	,000	,119	5,036
Kurs(X2)	,065	,025	,139	2,627	,013	,221	4,531
Interest Rate(X3)	40,954	13,049	,124	3,138	,004	,396	2,523

Source: Output SPSS Versi 25 (2024)

Based on the time series data processing obtained above, the following equation for foreign debt can be produced:

$$LNULN = -778{,}817 + 2{,}640FER + 0{,}065KURS + 40{,}954BIRATE + \mu$$

Based on the regression equation that has been created above, it can be explained as follows:

a. The constant produces a value of -778.817 which shows that if the independent variables foreign exchange reserves, exchange rate, and interest rates are constant, then the dependent variable is foreign debt of -778.817 trillion.
b. The regression coefficient for the foreign exchange reserve variable (X1) has a positive value of 2.640, meaning that if foreign exchange reserves increase by 1 trillion, then foreign debt will increase by 2.640 trillion.
c. The regression coefficient for the exchange rate variable (X2) has a positive value of 0.065, meaning that if the exchange rate weakens by 1,000 rupiahs, foreign debt will increase by 0.065 trillion/65 billion.
d. The regression coefficient for the interest rate variable (X3) has a positive value of 40.954, meaning that if interest rates increase by 1 percent, foreign debt will increase by 40.954 trillion.

DISCUSSION

T-Test Results: Foreign Exchange Reserve Variables Against Foreign Debt

Based on the resulting output data, a calculated test value was obtained of 17.176. To find the t table value at the level of significance, namely 0.05/2 = 0.025 (two-sided test), and the degrees of freedom df = n-k-1 or 34-3-1 = 30. The calculation results show that the t-table value is 2.042. As a result, the calculated t value is greater than the t table (17.176>2.042), so it can be concluded that partial foreign exchange reserves have a significant influence on foreign debt. Based on the results of the significance results, the value obtained is 0.000, which indicates that the significance value is <0.05 (0.000<0.05). So it can be seen that Ha is accepted and Ho is rejected, meaning we can conclude that partial foreign exchange reserves have a significant influence on foreign debt.

Results of The T-Test for the Variable Exchange Rate (Exchange Rate) on Foreign Debt

Based on the output results or data produced, a calculated test value of 2.627 was obtained. To find the t table value at a significance level of 0.05/2= 0.025 (two-sided test), the degrees of freedom are df = n-k-1 or 34-3-1 = 30. The calculation results show that the t-table value is 2.042. The calculation results show that the t-table value is 2.042. because the calculated t value < t table (2.627 <2.045), we can conclude that the partial exchange rate has a significant influence on foreign debt. Based on significance, the significance value obtained is 0.013, and the significance value is <0.05 (0.013<0.05). So it can be seen that Ha is accepted and Ho is rejected. This means that we can conclude that the partial exchange rate has a significant influence on foreign debt.

Results of the T-Test for Variable Interest Rates on Foreign Debt

Based on the output results or data produced, a calculated test value of 3.138 was obtained. To find the t table value at a significance level of 0.05/2 = 0.025 (two-sided test), the degrees of freedom are df = n-k-1 or 34-3-1 = 30. The calculation results show that the t-table value is 2,042. Because the calculated t value > t table (3.138> 2.042), we can conclude that partial interest rates have a significant influence on foreign debt. Based on significance, the significance value obtained is 0.004, and the significance value is <0.05 (0.004<0.05). So it can be seen that Ha is accepted and Ho is rejected, meaning we can conclude that partial interest rates have a significant influence on foreign debt.

The Influence of Foreign Exchange Reserves on Foreign Debt

Based on the regression results of the foreign exchange reserve variable, it was found that the significance value was 0.000 < 0.05 and the value of t-count (17.176) > t-table (2.042). Ha was accepted and Ho was rejected or partially it could be interpreted that the foreign exchange reserve variable had a positive and significant effect on foreign debt. The results of this study are in line with research (Nugroho, 2021) which states that the results of multiple linear regression show that foreign exchange reserves have a positive and significant effect on foreign debt.

The Influence of the Exchange Rate (Exchange Rate) on Foreign Debt

Based on the regression results of the exchange rate variable, it was found that the significance value was 0.013 < 0.05 and the value of t-count (2.627) > t-table (2.042). Ha was accepted and Ho was rejected or partially it could be interpreted that the exchange rate variable had a positive and significant effect on foreign debt. According to (Goeltom, M. S., 1998) exchange rates greatly influence macro and microeconomic factors in the economy. The position of the exchange rate changes every year which has an impact on foreign debt and economic uncertainty. The current global situation will increase the Indonesian government's foreign debt if calculated in rupiah. This is in line with research (Cahyaningrum et al., 2022) which states that the exchange rate has a positive and significant influence on foreign debt in Indonesia.

The Effect of Interest Rates on Foreign Debt

Based on the regression results of the interest rate variable, it was obtained that the significance value was 0.004 < 0.05 and the value of t-count (3.138) > t-table (2.042). Ha was accepted and Ho was rejected or partially it could be interpreted that the interest rate variable had a positive and significant effect on foreign debt. According to classical theory (Sukirno, 2019) interest rates determine the amount of savings and investments that will be made in the economy. Thus, according to Ganguly (1980), high public debt affects interest rates, which can change the level of savings, investment, and consumption (Afandi, 2022). This is in line with research (Brafu-Insaidoo et al., 2019) which states that interest rates have a positive and significant influence on foreign debt.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

1. Based on the test results, it shows that in partial terms foreign exchange reserves harmed the foreign debt of the Government of the Republic of Indonesia during 1990-2023. We can conclude that reserves partially have a positive and significant effect on foreign debt.
2. Shows that partially the exchange rate (exchange rate) has a positive effect on the foreign debt of the Government of the Republic of Indonesia during 1990-2023. It can be concluded that partially, the exchange rate (exchange rate) has a positive and significant effect on foreign debt. A depreciating exchange rate will affect the increase in the amount of foreign debt, thus it can become a burden in paying off interest installments and principal payments on foreign debt because paying off foreign debt is in the form of foreign currency.
3. Judging from this research, the results show that partial interest rates have a positive influence on the foreign debt of the Government of the Republic of Indonesia during 1990-2023. Partial interest rates have a positive and significant influence on foreign debt. When interest rates are high, the volume of foreign debt increases.
4. Based on the results of simultaneous or simultaneous tests, it can be concluded that the variables of foreign exchange reserves, exchange rates, and interest rates have a positive effect on foreign debt in Indonesia. Apart from that, the foreign debt variable is also influenced by the 3 independent variables, namely foreign exchange reserves, exchange rate (exchange rate), and interest rates in the previous year.

Recommendations

1. The government must make serious efforts to reduce Indonesia's dependence on foreign debt. For example, the use of external debt can be prioritized so that it can be used efficiently and effectively to truly strengthen the Indonesian economy. Apart from that, the government can also maintain or maintain the rupiah exchange rate against foreign currencies.
2. The government should try to find other alternatives for financing national development apart from increasing foreign debt, such as improving bureaucracy in terms of ease of investment and being more careful in using foreign debt.
3. Researchers are expected to use additional variables that influence foreign debt such as exports, taxes, government spending, and others. To ensure that the research results are reliable and explain the scope of foreign debt.

ADVANCED RESEARCH

The limitations of this research are that it is structured in such steps as to obtain the best possible results. However, in the process, getting perfect results is very difficult. In carrying out this research there are limitations, namely the factors that influence foreign debt only consist of 3 (three) variables, including foreign exchange reserves, exchange rates, and interest rates. Meanwhile, there are still many other factors influencing foreign debt. Based on the limitations of this research, the author recommends that further research be used to add other variables that influence foreign debt. So it can show a broader picture of what factors influence foreign debt.

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