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Fiscal Policy, Monetary Policy and Economic Growth in Indonesia

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Abstract

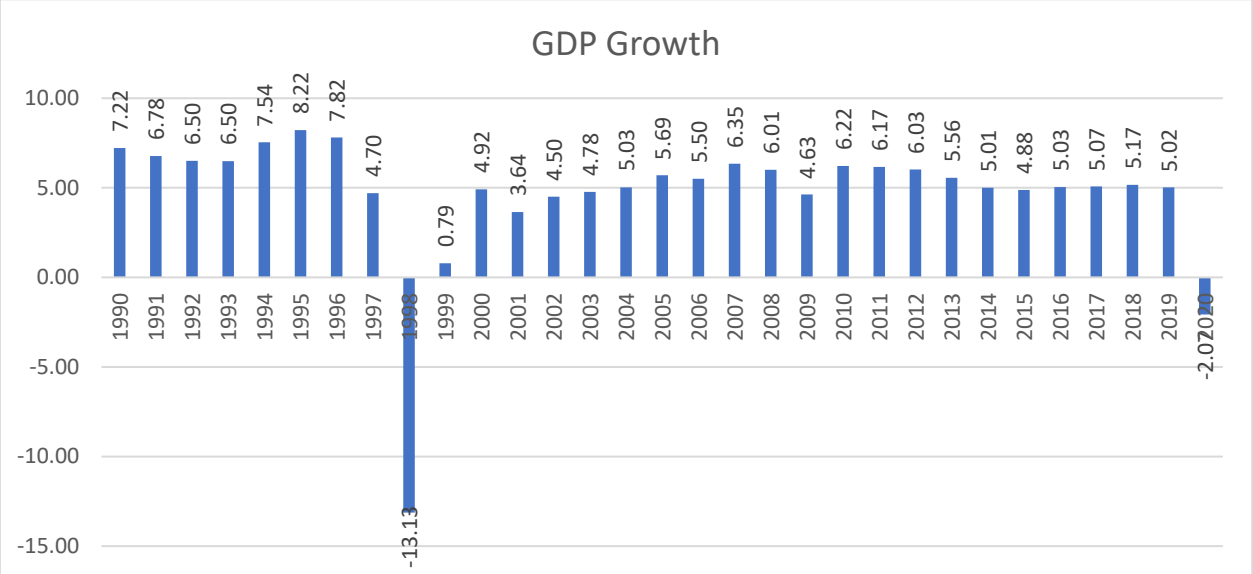
Economic growth is still a measure of the success of policies made by the government. Indonesia, a developing country, needs the right policies to continue to encourage economic growth and rise from the crisis that has occurred. The economic crisis that occurred in 1998, 2008 and 2020 requires Indonesia to have the right fiscal and monetary policies to recover quickly. This study aims to analyze the effect of the impact of fiscal policy (taxes and government expenditure) and monetary policy (money supply, inflation, and exchange rate) on economic growth in Indonesia. The method used in this study is multiple linear regression with time series data from 1990 to 2020. The results of this study prove that tax revenue has a positive effect on economic growth in Indonesia. Meanwhile, government spending, inflation, money supply and exchange rates have a negative effect on economic growth in Indonesia. The implications of this study show that both monetary policy and fiscal policy should be made through in-depth study. The government must be able to increase tax revenue and spend state revenues on investment needs. Monetary policy must also be able to maintain low inflation and strengthen the exchange rate through trade and foreign exchange reserves.

Keywords: Fiscal Policy; Monetary Policy; Economic Growth.

Introduction

Economic growth is one indicator of economic development. The benchmark for a country's economic growth rate can be seen from the Gross Domestic Product (GDP). The country's economic performance is expected to improve in line with the increase in GDP. Based on data from the Central Statistics Agency (BPS), Indonesia's economic growth rate reached 8.22 percent in 1995. This figure is the highest Indonesian economic growth rate from 1990-2020. Then in 1998 economic growth contracted to -13.13 percent. This is because in mid-1997 there was a crisis in the rupiah exchange rate peak in 1998 was the rupiah depreciating and finally, an economic crisis occurred (Karmeli & Fatimah, 2008). In 2020 Indonesia's economic growth again contracted for the first time since 1998 due to the Covid-19 pandemic.

In 2020, Indonesia's economic growth will reach -2% and increase to 3.7% in 2021. Indonesia's economic growth is also projected to increase to 5,3% in 2023 (Asian Development Bank, 2022).



Source: World Bank, 2023

Figure 1. *Indonesian GDP Growth in 1990-2020 (Percentage)*

The existence of an economic contraction requires the government to implement policies that are useful to quickly restore the national economy and maintain fiscal resilience due to increased state spending in dealing with the pandemic. Government policies taken can affect Indonesia's economic development, especially fiscal policy and monetary policy, which consist of taxes, government spending, inflation, interest rates, money supply, and also policies on exchange rates (Prihatin *et al.*, 2019). In achieving both short-term and long-term targets, the government uses fiscal policy and monetary policy as tools to influence economic activity.

Fiscal policy is under the control of the Indonesian central government, while the monetary policy on the money market is under the authority of Bank Indonesia. Some components affect economic growth through fiscal policy, namely tax revenues and government spending. Increasing tax revenue will strengthen the country's fiscal capacity (Lunjun, 2005). However, increasing tax rates under certain conditions will actually reduce economic growth because people's productivity will be hampered by the tax burden itself (Widmalm, 2001). Therefore it is important for the state to derive revenue from sources other than taxes. The results of research by Nurlina & Zurjani, (2018) and Saragih (2018) show that tax revenue has a positive and significant effect on the economy in Indonesia. However, there is a study conducted by Natasya & Nasir (2022) which states that income tax actually has a negative effect on economic growth. Tax revenues, tax-free receipts, and receipts from foreign loans or assistance are sources of government revenue. The realization of state revenues in 1990-2020 from three sectors, namely tax revenues, non-tax revenues, and grants.

Fiscal policy is not only about tax revenue but also about government spending. Government spending is a government action to regulate the economic and maintain economic stability by determining the number of government revenues and expenditures each year, also stipulated in the State Revenue and Expenditure Budget (APBN). The amount of government spending to overcome unemployment, reduce inflation, accelerate long-term economic development, reduce poverty, unemployment and equalize income, and this can increase economic growth to the goal (Mutia et al., 2019). Research by Nurlina (2015) and (Selfiana et al., 2020) shows that government spending has a positive and significant effect on Indonesia's economic growth. Other results show that increasing total spending in developed countries will actually reduce economic growth, and increasing consumption expenditure in developing countries will reduce economic growth According to research (Butkiewicz & Yanīkkaya, 2011; Wu et al., 2010; Connolly & Li, 2016).

Economic growth, price stability, and equitable development are the objectives of monetary economic policy. In addition to price stability, the stability of the rupiah exchange rate, interest rates, and the money supply according to people's needs, are some economic variables that reflect the achievement of macroeconomic stability that supports economic growth. Bank Indonesia as the monetary decision maker can independently choose monetary instruments for monetary policy-making based on macroeconomic objectives. One of the objectives of monetary policy is to maintain economic stability through low and stable inflation, which in the long run will have a good economic growth impact (Smith, 2004; Dang et al., 2022).

Inflation is the process of increasing the general price of an item continuously over a certain period of time. Increased public consumption due to uneven distribution of goods circulating in the market and currency depreciation is one of the factors causing inflation. Inflation causes the national currency to depreciate, so Bank Indonesia is responsible for maintaining exchange rate stability and inflation stability. The severity of inflation can have both positive and negative effects on economic growth. Mild inflation is beneficial because it can encourage people to work, save and invest, and drive the economy to do better. Low and stable inflation will encourage economic growth, therefore it is important that the country is able to maintain inflation stability through its policies (Sitanggang et al., 2022). However, the economy becomes sluggish when inflation is high or uncontrolled, so people do not want to work, save and even invest because of rapid and continuous price increases (Susanto, 2017). Research by Indiarti (2018) and Indriyani (2016) shows that inflation has a significant positive effect on Indonesia's economic growth. 2021 is a new story for Indonesia. Based on Worlddata (2022), Indonesia's inflation recorded at 1.56%, it was Indonesia's lowest inflation from 1960 to 2021.

Economic activity can managed by monetary tools, namely the money supply, which can affect economic growth. In its implementation, money supply policy has an impact on economic growth even in different policy scenarios by a country (Afanasyeva, 2021). According to Nopirin (2018), the money supply (M2) includes banknotes and coins, savings, and time deposits. The money supply can increase economic growth by using some of the public money for consumption, allowing producers to produce more goods to increase the demand for inputs. Keynes's hypothesis shows that the monetary authority can take a policy of lowering interest rates if there is any surplus of money in the community. Decreasing interest rates can encourage people to invest, which leads to increased production. Therefore, the money supply has a positive effect on production and economic growth (Kistianingsih, 2019). In the long term, money supply policy will have a good impact on the country's financial balance, but in the short term, interest rate policy will have more impact on the state (Seftarita & Suriani, 2022).

An exchange rate is the relative price of one currency against another or the price of one currency against another. Exchange rates reflect the balance between supply and demand for domestic and foreign currencies. Countries that have competitive exchange rates will benefit from an increase in the international trade balance and provide benefits for national economic growth (Razmi et al., 2012). However, a low assessment of a country's exchange rate sometimes becomes a stimulus for economic changes and knowledge gaps (Ribeiro et al., 2020). In the long run, the exchange rate also affects growth and changes the structure of results both through microeconomics and macroeconomics (Demir & Razmi, 2022). Mundell-Fleming theory Mankiw (2007), there is a negative relationship between the exchange rate and economic growth because output falls and economic growth falls when the exchange rate is higher than net exports (the difference between exports and imports). Becomes. According to the ASEAN Secretariat in the 2021 ASEAN Statistics Book, Indonesia has the weakest exchange rate among the 10 ASEAN member countries. On the other hand, Indonesia has the highest GDP among ASEAN countries. This shows that the appropriate monetary policy in Indonesia has to do with the negative relationship between the exchange rate and economic growth can make Indonesia a country with the biggest economy in Asia.

This study aims to analyze fiscal and monetary policies in influencing economic growth in Indonesia. This study analyze Indonesia's monetary and fiscal policies on economic growth using data from 1990 to 2020. Previous research that analyzed monetary and fiscal policies on Indonesia's economic growth from 2005-2018 write by (Aristina et al., 2020). This research implemented using the Vector Error Correction Model (VECM) method, where interest rates and tax revenues are negatively related to economic growth when the money supply and government spending are positively influence the economic growth. This research will provide an overview of the right and effective strategy for the economic recovery of the Indonesian state after being affected by Covid-19.

Research Method

The research area is the state of Indonesia. The research approach used is quantitative. This study uses secondary time series data with a time span from 1990 to 2020 or a total of 31 observation samples. The data sources used are data from the Indonesian Central Statistic (BPS), Bank Indonesia (BI), the Ministry of Finance of the Republic of Indonesia, the National Planning Bureau for Development (Bappenas), and other data from reference studies in various journals of supporting web sites. The variables used in this study are 1) Economic growth as measured by units of presses; 2) Tax revenue measured in rupiah; 3) Government spending measured in rupiah; 4) Inflation as measured by pressing units; 5) The amount of money in circulation measured in rupiah; then 6) Exchange rate measured in rupiah.

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This study uses multiple linear regression analysis. Before performing multiple linear regression analysis the necessary conditions is time series data through stationarity and cointegration tests should. Then, the classical test was performed which included the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. This is necessary so that the regression results obtained are unbiased and can be calculated. The following is the multiple linear regression equation in this study as down below:

$$EG_t = a + \beta_1 TR_{1t} + \beta_2 GE_{2t} + \beta_3 INF_{3t} + \beta_4 MS_{4t} + \beta_5 ER_{5t} + e$$

Description:

EG = Economic Growth
a = Constant Value
β = Regression Coefficient
TR_1 = Tax Revenue
GE_2 = Government Expenditure
INF_3 = Inflation
MS_4 = Money Supply
ER_5 = Exchange Rate
t = Time Periode
e = Error term

The method used for stationarity testing is using the Augmented Dickey-Fuller (ADF) unit root test. This test compares the statistical value of ADF with McKinnon's critical value so that the degree of integrity of the stationery of the variable can be determined. If the t-statistic value is greater than McKinnon's critical value, then Ho is rejected, i.e. the data has no root unit or stationary data. The probability value usually depends on a (0.05). If it is smaller than a (0.05), the data used is stationary and if it is greater than a (0.05), the data used is not stationary (Ginting, 2017).

In this study, the Johansencointegration test was used to test the cointegration. This cointegration test takes the value of more than one cointegration relationship. The results of the regression estimation will be obtained residual, then tested stationary, if it is stationary in the lavel order, then the data is cointegrated. If there are signs of a cointegration relationship between the variables, the model variables will return to a long-term equilibrium state. The Johansen test will be valid if it is performed on data that is known to be not stationary, but if it is stationary, then OLS regression can be used directly.

To find out whether the regression model is able to be a good estimator, in this study a classical assumption test is carried out, including: 1) Normality Test: To find out whether the residual is normally distributed, the Jarque-Bera test statistical test is used with the provision that if the calculation results are obtained a probability result of >0.05, then Ha is rejected (not significant), then it is concluded that the data is normally distributed, but if the result of the probability calculation is <0.05, then the data not normally distributed. 2) Multicollinearity Test: This test is intended to find out if there is a significant correlation between the independent variables of the regression model. A good regression model does not have a correlation between independent variables, meaning that multicoliearity does not occur. To detect the presence or absence of multicollinearity symptoms, it is necessary to pay attention to the Variance Inflation Factor (VIF) value and tolerance value. If the VIF < 10 and the tolerance value ≥ 0.10, the regression does not have multicoinearia in each independent variable (Ghozali, 2018). 3) Heteroscodasticity Test: This test is intended to find out if there is a variant dissimilarity from the observed residual. When the observed variants are the same or constant, this condition is called homoscedasticity. However, if the observed variant changes from observation to other observations, the data condition is called heteroscedasticity. Regression models are said to be good if there are no signs of heteroscedasticity in the data. The way to detect it is using the Gleejser test, that is, if the significance value < 0.05, heteroscedasticity occurs, and if the significance value ≥ 0.05, then heteroscenidism does not occur (Ghozali, 2018). 4) Autocorerelation Test: This study is intended to test whether in the linear regression model there is a correlation between the disturbance error in the current period (t) and the error in the previous period (t-1). Regression free of autocorrelation is included in a good regression model. The autocorrelation test used is using the Durbin-Waston method.

Results & Discussion

This research utilizes the Augmented Dickey-Fuller (ADF) test to assess stationarity. By comparing the t-statistic with the McKinnon critical values at 1%, 5%, and 10% thresholds, it is

determined that if the t-statistic is lower than the McKinnon value, the data is non-stationary. If the t-statistic exceeds the McKinnon value, the data is considered stationary, indicating no unit root. Unit root testing is performed at the level, first difference, and second difference stages. The variables in this study show non-stationarity at both the level and first difference stages, leading to testing at the second difference stage.

Table 1. Stationarity Test Results at the Second Difference Level

No	Variable	ADF Value	Mc Kinnon's Critical Values 1 %	5 %	10 %	Prob
1	Economic Growth	-6,837338	-3,699871	-2,976263	-2,627420	0,0000
2	Tax Revenue	-5,991136	-3,699871	-2,976263	-2,627420	0,0000
3	Government Expenditure	-7,817995	-3,689194	-2,971853	-2,625121	0,0000
4	Inflation	-3,602303	-3,752946	-2,998064	-2,638752	0,0100
5	Money Supply	-4,264962	-3,689194	-2,971853	-2,625121	0,0025
6	Exchange Rate	-7,147167	-3,699871	-2,976263	-2,627420	0,0000

Source: Calculated data, 2022

The table demonstrates that at the second difference level, all variables are stationary, as indicated by probability values below 0.05 and ADF test statistics exceeding McKinnon critical values. Next, the classical assumption tests are conducted. First, the normality test checks if the regression model's residuals are normally distributed. The Jarque-Bera test indicates a normal distribution if the probability exceeds 0.05, but the result shows a probability of 0.000000. This test applies the central limit theorem, which asserts that for sample sizes of 30 or more, the sampling distribution curve will center around the population parameter and possess all normal distribution properties. The second test, multicollinearity, assesses if the regression model has high correlations among independent variables. The results of the multicollinearity test are presented in the following table:

Table 2. Multicollinearity Test Results After Data Transformation

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
Constant	1,227058	3,102673	NA
Tax Revenue	0,000112	1,699701	1,095893
Government Expenditure	0,000103	4,680736	2,563541
Inflation	0,001742	1,571805	1,571503
Money Supply	2,93E-05	6,293126	2,469069
Exchange Rate	0,504532	1,843886	1,632770

Source: Calculated data, 2022

The results indicate that after transforming the data to differences, the VIF values for all variables are below 10, suggesting that the multicollinearity test is passed.

Thirdly, the heteroscedasticity test is conducted to check for unequal variances in the residuals. A good regression model should not exhibit heteroscedasticity, meaning the data should have equal or constant variances (homoscedasticity). In this study, the Glejser test is used to assess equal variances, with a significance value of ≥ 0.05 indicating no heteroscedasticity. The heteroscedasticity test results are presented in the following table:

Table 3. Heteroscedasticity Test Results

Source	Obs*R-squared	Prob. Chi-Square
Heteroscedasticity	4,072916	0,5390

Source: Calculated data, 2022

The results of the heteroscedasticity test in Table 3 show a Prob.Chi-Square value of ≥ 0.05, indicating no heteroscedasticity. The last test is for autocorrelation, which checks for correlations

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between the error terms of a variable over different periods. The study found a DW value of 1.918331. For a 5% significance level with a sample size of 31 and 5 independent variables, the DW table provides DL = 1.0904 and DU = 1.8252. Since the DW value is greater than DU and less than 4 - DU, specifically 1.8252 < 1.918331 < 2.1748, it is concluded that there is no autocorrelation in this study. The summary of multiple linear regression in this study is down below:

Table 4. Linear Multiple Regression Result

Variable	Coefficient	t-Statistic	Prob
Constant	9,378551	14,32569	0,0000
Tax Revenue	0,017936	11,86715	0,0000
Government Expenditure	-0,004887	-2,435205	0,0224
Inflation	-0,234321	-16,33612	0,0000
Money Supply	-0,002674	-3,080668	0,0050
Exchange Rate	-0,304306	-2,813769	0,0094
R-squared	0,864891		
Adjusted R-squared	0,837869		
F-statistic	32,00708		
Prob(F-statistic)	0,000000		

Source: Calculated data, 2022

The Effect of Tax Revenue on Indonesia's Economic Growth

Tax revenue has a significant positive effect on Indonesia's economic growth. The results of this study are in accordance with the hypothesis stated at the beginning of the study which states that tax revenue has a significant positive effect on Indonesia's economic growth. The results of this study are in line with research by Nurlina & Zurjani (2018) which shows that tax revenue has a significant positive effect on Indonesia's economic growth. Tax revenue for the period 1990-2020 shows a fluctuating trend towards an increase every year, only in 2009 and 2020 which decreased compared to the previous year. Every year, the government continues to strive to increase the tax revenue received from year to year, because tax revenue is the main focus in financing development and contributes greatly to state revenues in influencing the course of the economy to increase the rate of Indonesia's economic growth. With increased tax revenues, the government can also increase government spending which is used to build various supporting infrastructures and stabilize the economy. This is in accordance with Peacock and Wiseman's theory which states that the public understands that the amount of tax collection applied is used to finance government spending so that the community essentially has tax tolerance where public awareness can increase national production which can increase growth so that income distribution can be realized (Sanjaya & Anis, 2021).

The government's efforts to increase tax revenues include encouraging business sectors that can generate tax revenues such as small and medium enterprises, natural resource management industries, and the food and beverage industry through various tax relief measures by the government to strengthen the economy in order to increase economic growth (Bahtiar & Saragih, 2019). The policy of increasing taxes is problematic in developing countries. The increase in tax rates must go through an in-depth study so as not to have an impact on declining economic activity. High tax rates will actually burden the community even though on the other hand it will provide the country with high income for increasing national development.

The Effect of Government Spending on Indonesia's Economic Growth

Government spending has a significant negative effect on Indonesia's economic growth. The results of this study are not in line with the hypothesis put forward at the start of the study, namely that government spending has a significant positive effect on Indonesia's economic growth. However, the results of this study are in line with research by Safari (2016) and Suhendra & Irawati (2016) showing that government spending has a significant negative effect on Indonesia's economic growth.

In this study, government spending has a negative effect on economic growth, in contrast to research by Sari et al., (2016), Mutia et al., (2019), and Nurlina (2015) which shows that government spending has a significant positive effect on economic growth from Indonesia. And the results of this study are inconsistent with the government spending theory proposed by Rostow and Musgrave, which has a three-stage relationship between government spending and economic development. The first stage of economic development changes the value of government investment into the total value of the investment. The middle stage of economic development where the government still needs

investment to increase growth, and the next stage is government spending on social activities such as health programs, pension programs and so on (Suhendra & Irawati, 2016).

With the realization of the government of Indonesia, the expenditure consists of central government expenditure, funds allocated to the regions, and local government expenditure. Government spending in the period 1990-2020 showed negative results for Indonesia's economic growth, this happened in the past 31 years Indonesia experienced several economic crisis, such as in 1998, 2008, and 2020 with higher tax revenues. Government spending plays an important role in the economy in Indonesia, especially in the recovery process from the crisis faced. However, consumptive government derailment will not have a good impact as well as spending on investment. In addition, Indonesia's investment expenditure is mostly on infrastructure whose benefits will be received in the long term.

The Effect of Inflation on Indonesia's Economic Growth

Inflation has a significant negative effect on Indonesia's economic growth. The results of this study are in line with the hypothesis put forward at the start of the study, namely that inflation has a significant negative effect on economic growth. This study is in line with several previous studies by Yazid (2019), which show that inflation has a negative and significant effect on Indonesia's economic growth from the period 1980-2017. Asnawi & Fitria (2018), and Kusumatrisna et al., (2019), show that inflation has a significant negative effect on Indonesia's economic growth. Simanungkalit (2020), Inflation has had a negative and significant effect on economic growth in Indonesia from 1983-2014.

This is motivated by Milton Friedman's theory that inflation is a monetary phenomenon that can occur anywhere, reinforced by the theory of the theoretical model developed by (Stockman, 1981), which concludes that a rise in inflation will have a negative effect on economic growth, this is because With rising inflation, the output will decrease because inflation can reduce purchasing power, therefore, people reduce purchases for consumer goods and investments (Satria, 2012).

The data for the period 1990-2020 shows that the inflation that occurred in Indonesia fluctuated, where the average inflation in the past 31 years was 9.21 percent, this result categorized as low inflation. However, in the period 1990-2020, Indonesia had to deal with hyperinflation in 1998 where inflation occurred because the rupiah depreciated, this shows that inflation occurs due to the cost-push inflation factor (high inflation caused by economic contraction), as was the case In 2020 The Covid-19 that hit Indonesia had an impact on the price of necessities and fuel which continued to rise resulting in a decrease in people's interest to buy and an increase in the number of unemployed in Indonesia.

To suppress inflation are made by cutting government spending, which can reduce the demand for goods and services to lower prices and raise taxes, with an increase in tax rates that will cause people to lower the level of consumption. By reducing consumption, people can reduce the demand for goods and services by lowering prices (Wahyuni, 2021). Inflation occurs through cost push and demand pull, so important considerations to maintain low and stable inflation conditions are also on the producer and consumer sides. From the producer side, attention must be paid to the supply of raw materials in national staple industries such as the food industry and staple ingredients. Meanwhile, on the consumer side, Indonesia often experiences a surge in demand for basic ingredients at certain moments, so this needs to be taken into account regarding the availability and distribution.

The Effect of the Money Supply on Indonesia's Economic Growth

The money supply has a significant negative effect on Indonesia's economic growth. The results of this study are not in line with the hypothesis proposed at the start of the study that the money supply has a positive effect on Indonesia's economic growth. The results of this study are in line with research by Prihatin *et al.,* (2019), Tiwa et al., (2016), and (Susandiana, 2016) who argue that the money supply has a significant negative effect on economic growth.

One of the tools used by the monetary authority, namely Bank Indonesia, in economic activities is the money supply. Because money function is a transaction tool that moves the economy and can influence economic activity. The portion of money in circulation in developing communities should be reasonable in more or less the amount of money in circulation can affect people's purchasing power and affect the availability of goods for community needs. The development of the money supply can have positive and negative effects. Therefore the money supply should be controlled according to the ability of the economy so that the money supply is neither too much nor too little Prihatin *et al.*, (2019). In money supply theory, Keynes argues that an increase in money supply transactions has a positive effect on production and economic growth. As one of the monetary instruments that can control the economy, money supply will have a direct impact on increasing prices but will also increase economic productivity if producers respond to an increase in the money supply with investment and increased production.

In the results of this study, the money supply has a negative effect on economic growth because a large amount of money in circulation in the community does not increase economic growth, because

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if the money supply exceeds the required level, it can cause inflation, and this happens because the amount of money circulating in the community is large, and then people's purchasing power of an item increases and the goods are constrained thereby increasing inflation, which has a negative effect on economic growth. This is in line with the quantity theory of money that the price level of goods and services will follow the money supply, if there is more money in circulation, the price of goods will be more expensive and cause inflation (Tiwa et al., 2016). If inflation occurs due to an increase in the money supply in the community will affect the purchasing power of the people. Especially for those with lower middle incomes because with prices continuing to rise it is not feasible to spend more money on goods to obtain the the community needs.

The Effect of Exchange Rates on Economic Growth in Indonesia

This study showed that the exchange rate had a significant negative effect on Indonesia's economic growth. This study is in line with the hypothesis proposed at the start of the study that the exchange rate has a significant negative effect on Indonesia's economic growth. The results of this study are in line with research conducted by Wanda & Kartika (2021), Suhendra (2020), Pridayanti (2014), Septiawan et al., (2016), Rinaldi et al., (2017), Jaya et al., (2019), stating that the exchange rate has a negative effect on Indonesia's economic growth.

In Indonesia, three exchange rate systems have been implemented. From 1964-1978 Indonesia used a fixed exchange rate (Fixed Exchange Rate), from 1978-1997 a controlled floating exchange rate system (Managed Floating Rate), and from the period 1997 until today Indonesia used a floating exchange rate system (Floating Exchange rate). The exchange rate system used points to an open economy, it is caused by the free-floating system that is usually one goal, which is inflation, with the monetary authority directly targeting low price stability as the ultimate goal, so that it can maintain the stability of the rupiah (Sulaini & Pratomo, 2014).

With a higher exchange rate, the rupiah will weaken and impact the price of goods as the Indonesian economy is affected by international trade. As a country that still uses a lot of finished goods from abroad through imports, the increase in the exchange rate against the dollar marks the weakening of the rupiah value so that purchasing power for imported products will decrease. The weakening of the exchange rate makes imported goods more expensive, which could be in the form of further processed goods such as raw materials and capital goods that consumed directly. When the price of goods increases, public demand decreases and reduces the level of domestic production. The weakened price of goods will reduce output (goods and services) produced, causing economic growth to slow down (Syamsuyar & Ikhsan, 2017). This is consistent with the traditional approach to exchange rate theory, where this theory relies on trade flows and purchasing power to determine long-term exchange rates based on the exchange of goods and services between countries where trade values determine exchange rates.

Conclusions

Based on the results of testing and analysis, it can be concluded that: 1) Tax revenue had a significant positive effect on Indonesia's economic growth from 1990-2020. Due to the policy made by the government in 2022, namely increasing tax rates and facilitating disclosure of taxpayer assets. 2) Government spending had a significant negative effect on Indonesia's economic growth from 1990-2020. Current government spending tends to be optimistic and wary. In the long term, the government must consider a balanced budget policy and increase cooperation with the private sector to encourage investment. 3) Inflation had a significant negative effect on Indonesia's economic growth from 1990-2020. The government must be able to maintain the supply chain of domestic goods and services by facilitating access to distribution. 4) The money supply had a significant negative effect on Indonesia's economic growth from 1990-2020. Control of the money supply must be carried out to maintain the purchasing power of the domestic rupiah remains strong. 5) The exchange rate had a significant negative effect on Indonesia's economic growth from 1990-2020. International trade policies, especially exports, must be facilitated by cooperation between countries to expand the influence of the rupiah in other countries.

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