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The Effect of External Debt, Net Exports on Exchange Rates and Indonesia's Economic Growth

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ABSTRACT: This study aims to determine the effect of Foreign Debt (X_1) and Net Exports (X_2) which describe exports and imports on the movement of the Rupiah exchange rate (IDR) against the US Dollar (USD) (Y_1) and economic growth (Y_2) in Indonesia throughout 1988-2019. This study uses multiple linear regression analysis using path analysis to determine the direct or indirect effect. The results showed that simultaneously, all dependent variables had a significant effect on the exchange rate (Y_1) and economic growth (Y_2). While partially, Foreign Debt (X_1) and Net Exports (X_2) have a positive and significant effect on the Exchange Rate (Y_2). Foreign Debt (X_1) has a positive and significant effect on Economic Growth (Y_2), Net Exports (X_2) have a positive and no significant effect on Economic Growth (Y_2), and the Exchange Rate (Y_1) has a significant and negative effect on Economic Growth (Y2). Based on path analysis, Foreign Debt (X_1) and Net Exports (X_2) show a stronger direct effect on Economic Growth (Y2), compared to the indirect effect through the exchange rate mediating variable (Y_1).

KEYWORDS: Foreign Debt, Net Exports, Exchange Rates and Economic Growth.

I. INTRODUCTION

The success of a country can be measured by various levels of measurement, one of the most popular is the level of economic growth. In general, economic growth can be measured by the value of Gross Domestic Product (GDP). The value of GDP can be estimated by calculating how many goods or services a country can produce in one period of time. Indonesia's economic growth over the last 20 years has fluctuated in the range of 4-5 percent per year and experienced an economic recession in 2020 due to the Covid-19 pandemic with negative growth at -2.07 percent. One of the causes of the economic contraction experienced by Indonesia is due to the closure of factories and offices due to the massive transmission of the Covid-19 virus and the implementation of the Large-Scale Social Restrictions (PSBB) policy or what is now the Enforcement of Restrictions on Community Activities (PPKM) which causes restrictions on community mobility. so that household or community consumption that supports the economy must be restrained from declining (Alwandi & Muchlisoh, 2021).

The state budget plays an important role during the Covid-19 pandemic to protect the people of Indonesia and drive the economy as long as the Emergency PPKM is in effect until the community slowly adapts to new habits (new normal), and returns to work, school, meetings, shopping, and other activities. Others online or online. BPS noted that in the first quarter of 2021 economic growth was still contracting 0.71% (year on year / yoy), then it grew significantly in the next period in the second quarter of 2021 to 7.07%, while in the third quarter of 2021 due to an increase in cases The daily Covid-19 variant of the Delta variant of economic growth slowed by 3.51% due to the implementation of the Emergency/Level PPKM which resulted in a decline in mobility, investment and public demand. One of the steps taken by the government to overcome the problem of the economic recession and efforts to deal with the impact of the Covid-19 pandemic is to increase foreign debt.

In carrying out national development, there are three sources of financing, namely, voluntary public savings, government savings, and forced public savings (Sukirno, 1978). However, gaps in domestic savings and investment indicate that the economy has not been able to accumulate sufficient savings to facilitate growth in domestic investment. This gap in savings and investment will be filled with foreign loans. In addition to using foreign debt, other alternatives can be used by the government, namely, encouraging foreign investors to invest in the form of foreign investment. Debt Service Ratio is the level of a country's ability to pay off foreign debt and with the agreed interest at the time of making foreign loans.

Indonesia's economic growth rate since the Covid-19 pandemic has stagnated and has a downward trend, while foreign debt continues to increase. The Rupiah exchange rate against the US Dollar also depreciated the most since October 2015, this triggered concerns over the government's ability to pay off its increasing foreign debt. The weakening Rupiah exchange rate will increase Indonesia's foreign debt. However, the rupiah exchange rate will depreciate even more when foreign debt increases, thus creating a cycle that will continue to increase the amount of foreign debt that occurs.

The weakening of the Rupiah exchange rate will increase the amount of foreign debt that needs to be repaid, both in terms of principal and interest payments. Payment of foreign debt will use foreign currency so that the foreign exchange held will decrease, this will increase the demand for foreign currency and will depreciate the domestic currency. This has been proven empirically in several previous studies.

Research by Saheed et al., (2015) analyzed the influence of foreign debt on the exchange rate in Nigeria with a paper entitled "Impact of Public External Debt on Exchange Rate in Nigeria", while in Indonesia it has been studied by Yudiarti & Mustika (2018) in a paper entitled "The Effect of Foreign Debt, Interest Rates and the Current Account Balance on the Exchange Rate of the Rupiah Against the United States Dollar," the two studies found that the exchange rate was positively and significantly influenced by foreign debt. This finding means that when a country increases its foreign debt, the currency exchange rate of the country concerned will depreciate (decline).

The reason developing countries receive aid is because the aid is the main and important ingredient in the development process (Todaro & Smith, 2011). Foreign aid complements domestic resource shortages, helps structurally transform the economy, and contributes to economic growth. Indonesia's goal of increasing its foreign debt during the pandemic is to cover the government's budget deficit which has swelled, especially in the health and social protection budget. Finance Minister Sri Mulyani said foreign debt is a tool that a country can use to save its economy (kompas.com).

Previous studies that have been conducted to examine the effect of foreign debt on economic growth have varied results and conclusions. First, research finds that foreign debt will increase economic growth (positive effect). Quazi (2005) concluded that in Bangladesh from 1973 to 1999, foreign debt had a positive and significant effect on GDP growth. Bhattarai (2008) also draws the same conclusion that Nepal's foreign debt from 1983 to 2002 had a positive effect on real GDP per capita. Bearce & Tirone (2010), also concluded that in Sub-Saharan countries, Central America, South America, Asia, the Soviet Union, Eastern Europe, and North Africa from 1975 to 2000 the foreign debt of these countries had a positive effect. And significant to the economic growth of each of these countries respectively.

Second, foreign debt lowers the rate of economic growth or has a negative effect on economic growth. This is similar to the conclusion of research by Metwally & Tamaschke (1994), on Algeria, Morocco,an d Egypt in the period 1975-1989 which states that the increase in foreign debt of these countries has a negative effect on economic growth. This is very possible because the government's policy-making is not right so foreign debt is increasingly making it difficult for the economy to rise and finally there is no other way but to increase debt again. The economic downturn in this country is also very strong, it is suspected that it is closely related to the deteriorating global economy. Samnang (2004) research on Cambodia for the 1982-2002 period also gives the same conclusion, namely that Cambodia's foreign debt has a negative and significant impact on economic growth in the short term and long term. This is very strongly suspected because the security situation in Cambodia is not conducive after the Cambodia-Vietnam war period 1977-1979. Although Vietnam legally left Cambodia in 1989, the situation in the country which is still raging in conflict between the government and the rebels is still a strong reason for foreign debt not being able to have a positive influence on Cambodia's economic growth.

Salvatore (1990) asserts that exports are a means of boosting economic growth. Analysis by Salvator on developing countries found that to increase economic growth developing countries need to export, this because exports for developing countries are one of the main activities that can increase economic growth. Developing countries increase exports and investment in order to encourage output to increase economic growth. The increase in exports will finance the import of production factors used in domestic production, by obtaining foreign exchange from increased export activities.

The fluctuating value of Indonesia's exports in the last five years. Fluctuations in the value of exports move in tandem with fluctuations in the value of imports. The value of imports in 2018 decreased by 5% although in 2016 and 2017 they increased by 7.29% and 9.18%, respectively. According to Fauziah & Khoerulloh (2020), in 2019, Indonesia was more dominated by import activities than export activities.

According to Kholis (2012), economic growth is positively influenced by imports. This means that when imports are carried out more and more, the economic growth that occurs is increasingly accelerated. In fact, in Indonesia, production from foreign investment companies still produces a lot of goods using production materials originating from abroad (imports) so it is necessary to increase imports to carry out production. Foreign investors have not explored the potential of using domestic production factors as raw materials for their production. This is due to raw materials originating from within the country which have a price that is more expensive/higher than the price of imported raw materials (imported from abroad), or imported raw materials are of better quality than domestic (domestic) raw materials.

In international trade, the difference in currency values between countries is created by the need for cross-border payment instruments using money (Ismanto et al., 2019). Exchange rate movements have two effects. First, if the value of the rupiah depreciates, or experiences a decrease in value against the value of foreign currencies, it can cause an increase in exports so that the impact on the money trade balance increases. Second, comparatively, it can increase Indonesia's economic growth because Indonesian products are more competitive than competing countries (Ismanto et al., 2019)

The global impact of the Greek crisis, economic recovery, the cessation of quantitative easing in the United States, and the increase in domestic fuel prices in 2015 weakened the rupiah exchange rate (Fauziah & Khoerulloh, 2020). The value of the rupiah which strengthened by 0.48% in 2016 and weakened again by 0.26% and declined by 3.14% in 2017 and 2018. The weakening of the rupiah in 2017 and 2018 is the effect of the trade balance the deficit, the global impact of the emerging market crisis in Turkey, Iran, Argentina, and South Africa, the escalation of the trade war between America and China and the strengthening of the American economy (Astuti & Ayuningtyas, 2018). The increase in supply of currency, the stability of lower interest rates, and low inflation in 2019 again strengthened the value of the rupiah by 0.48% (Fauziah and Khoerulloh, 2020).

Indonesia's foreign debt is increasing every year. Indonesia's foreign debt has an average growth rate of 7.52 percent per year, while real GDP in the last five years has only grown by around 5 percent per year and in 2020 experienced a recession due to the Covid-19 pandemic. The value of Indonesia's exports in the last five years has fluctuated in value and has tended to decline, and since 2012, data shows that there is a trade balance deficit, in other words, the value of imports is greater than the value of exports.

The Rupiah exchange rate in the last five years also showed a weakening against the United States Dollar. The government's efforts to restore the economy through maintaining a stable currency exchange rate and also increasing economic growth through accelerating GDP growth are closely related to the three variables already mentioned. Several alternatives to overcome this problem include applying for foreign loans, increasing exports, and reducing dependence on imports. The government's policy to maintain the stability of the rupiah exchange rate and to save the economy is interesting to study amid the current Covid-19 pandemic.

II. LITERATURE REVIEW

External Debt and Economic Growth

Indonesia, has a trend of foreign debt that continues to increase from year to year. This increase occurred in by increasing need for development funds, besides the increase in debt became higher after the implementation of deregulation which resulted in the debt structure being dominated by private debt, so that it would have an impact on economic growth. Accumulated external debt is a common phenomenon in developing countries. External debt occurs when a country's economy has a shortage of domestic savings, and has a trade balance deficit, and has a need for imports of tal goods to increase domestic resources (Todaro & Smith, 2011). This is in line with what Kuncoro (2010) said that to carry out the development of a country, investment is needed that is financed by sufficient funds. (Karagol, 2009) states that the relationship between economic growth and economic external debt is not just a one-way relationship.

Export and Economic Growth

According to Apridar (2009) exports are the main determinant of a region in increasing the economic growth of the region. Therefore, exports have an important role in building the economy, for that, an economic development strategy is needed because an increase or decrease in exports can affect domestic products. According to Dizaji & Badri (2014) exports are a component of aggregate expenditure so that when exports increase, regional or state income will also increase, and vice versa when exports decrease, regional or state income will decrease as well. This theory is in accordance with the analysis conducted by Ramanayake & Lee, (2015) who found that export activities are very important activities in increasing economic growth.

Import and Economic Growth

In meeting domestic needs, a country can import (activities carried out by buying goods or services from abroad into the country). Large import activity will weaken the domestic currency, this happens because when there is a large import, it will increase the demand for foreign currency. Sedyaningrum et al., (2016) states that high import activities will increase unemployment, this happens because if there is a large import, domestic production will decrease because people will prefer to buy imported goods that often have better prices or quality.

Imports affect economic growth. According to Fatmawati (2015); and Fitriani, (2019) imports will reduce Indonesia's economic growth in the long and short term. However, Astuti & Ayuningtyas (2018) show that imports only affect economic growth in the short term. On the other hand, Asbiantari et al., (2018) say that Indonesia's economic growth is influenced by imports of capital goods in the long term.

Exchange Rate and Economic Growth

The exchange rate is the rate of exchange for the currency between two or more countries that is agreed between two or more countries to conduct trade (Mankiw, 2012). The exchange rate is the amount of a country's currency needed to obtain a foreign currency. In the international economy, the exchange rate is an important variable, which affects other variables such as the balance of payments, current account, prices, and interest rates.

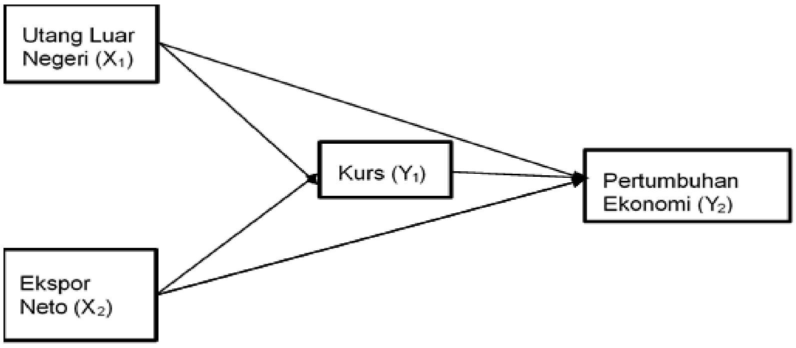
An increase in the exchange rate in the Mundell-Fleming theory on (Obstfeld ,2001) will negatively affect economic growth. When the rupiah strengthens, then exports will be lower, this is because export goods become more expensive in the eyes of international buyers from other countries. The decline in exports will reduce output so that economic growth that occurs will experience a decline because the amount of GDP revenue is reduced due to a decline in exports.

The frequent weakening of the rupiah will affect the performance of export activities. The weakening of the exchange rate will reduce imports that occur because imported goods will be more expensive when the price of imported goods is converted into the domestic currency (rupiah). However, the opposite occurs in exports, when there is a depreciation of the domestic currency against foreign exchange, Indonesian export goods will have more competitive prices according to the importing country so that these goods will be more in demand. In addition, exporters will get higher profits because transactions are carried out using foreign currencies.

Conceptual Framework and Hypothesis

This research is based on theory and several previous studies which say that the trade balance and foreign debt are related to economic growth and the exchange rate, using the following conceptual framework:

Figure 1. Conceptual Framework



From the theories and empirical studies that have been described, the following research hypotheses were designed:

H_1 : External Debt has a negative and significant effect on the Exchange Rate

H_2 : Net Exports have a negative and significant effect on the Exchange Rate

H_3 : Foreign Debt has a positive and significant effect on Economic Growth

H_4 : Net Exports have a positive and significant effect on Economic Growth

H_5 : Exchange rate has a negative and significant effect on Economic Growth

III. RESEARCH METHODOLOGY

The approach used in this research is quantitative. Quantitative research is a method for testing certain theories by examining the relationship between variables (Creswell, 2009). Furthermore, this research uses comparative research, namely research conducted to compare the value of a variable with other variables in different periods.

The data used in this study is time-series data with observation time from 1988 to 2019 by issuing outliers in 1998 and 1999 because during that period Indonesia experienced an economic crisis so the value of the rupiah fell and debt swelled. Abroad to be repaid. To test the effect of the independent variable on the dependent variable, we used linear regression or Ordinary Least Square (OLS) with secondary data obtained from World Bank publications. The regression model formed is as follows

$$\boldsymbol{ER}_{\boldsymbol{t}} = \boldsymbol{\beta_1 FD_t} + \boldsymbol{\beta_2 NE_t} + \boldsymbol{e_t} \quad \text{.......... (1)}$$

$$\boldsymbol{EG}_{\boldsymbol{t}} = \boldsymbol{\beta_1 FD_t} + \boldsymbol{\beta_2 NE_t} + \boldsymbol{\beta_3 C_t} + \boldsymbol{e_t} \quad \text{.......... (2)}$$

Where:

t = Time Period

β_1- β_2 = Regression Coefficient

ER = Exchange Rate

FD = Foreign Debt/External Debt

NE = Net Exports
EG = Economic Growth
e = *error term*

IV. RESULT AND DISCUSSION

To statistically test the effect of External Debt and Net Exports on Exchange Rate and Economic Growth, multiple linear regression (OLS) estimation was performed. But before that, the Classical Assumption Analysis was tested so that the regression results obtained could be accounted for and were Best Linear Unbiased Estimator (BLUE). After doing the Classical Assumption Test, it was found that the model has passed the Normality test, Hetercodastisity Test, Autocorrelation Test, and Multicollinearity Test. The next estimation results obtained are as follows.

$$\boldsymbol{ER = -429,008 - 0,04\ FD\ t + 0,12\ NE\ t + \ e\ t} \quad \text{....... (3)}$$
$$\boldsymbol{EG_t = 6,82 - 0,0003\ C\ t + 0,000009\ FD\ t + 0,00001\ NE\ t + e\ t} \quad \text{....... (4)}$$

The results of the recapitulation of the estimation results of the two models that have been carried out can be seen in the tables below.

Table 1. Partially Test Result (*t-test*)

Variable	**Equation I (Exchange Rate)**		**Equation II (Economic Growth)**	
	T-Statistic	**Prob.**	**T-Statistic**	**Prob.**
Exchange Rate (Y_1)	-	-	-4,721303	0,0001*
External Debt (X_1)	9,507407	0,0000*	2,292503	9,507407
Net Export (X_2)	3,468276	0,0018*	0,986798	3,468276

Table 2. Simultaneous Test Result (*f-result*)

Simultaneous Test	**F-statistic**	**Prob.**
Equation I (Exchange Rate)	53,10151	0.000000*
Equation II (Economic Growth)	12,63881	0.000000*

Table 3. Coefficient of Determination Test Results (*R^2*)

Coefficient Determination	***R-squared***	***Adjusted R-squared***
Equation I (Exchange Rate)	0,797302	0,782287
Equation II (Economic Growth)	0.593219	0,546283

**Significant at 5% level*

Source. Data Processing Result, Eviews10. 2022

The Effect of External Debt on Exchange Rate

Foreign debt is a loan received from abroad in the form of goods and services, or in the form of foreign exchange, whether converted into rupiah or not, which must be repaid along with previously agreed terms. These loans can be in the form of project loans consisting of soft loans, export credit facilities, commercial loans, and mixed loans. In theory, when the fiscal or monetary stimulus is liquidated through foreign loans, the number of dollars in circulation will certainly increase, this should make the US dollar weaker, but in the current condition when the US dollar is under pressure, it turns out that the rupiah has not been able to strengthen significantly. significant.

Foreign debt can make the Rupiah fall even more (depreciate) because this is related not only to a large amount of money in circulation, ut there are always other factors that make the Rupiah depreciate considering that foreign debt is always converted to other currencies, so it can be influenced by fluctuations. the value of the foreign currency. Foreign debt always uses the currency of another country which at the time of settlement needs to be converted from rupiah into the previously approved foreign currency, so that when the Rupiah weakens (depreciates) against the US Dollar, the amount of foreign debt that needs to be repaid will become increasingly large. large, not to mention external factors globally and domestically, also if there are fluctuations such as cuts and restrictions on bond purchases by the Fed to stabilize the economy of the United States to make the rupiah exchange rate and the Composite Stock Price Index (JCI) fluctuate sharply, trade wars between America and China made China slow down its economy so that China's demand for products originating from developing countries tended to decline, this resulted in weakening exports, which is one of the foreign exchange income in developing countries such as Indonesia, to be reduced, not to mention foreign investment Russia over Ukraine which increased the price of non-oil and gas commodities such as crude palm oil and coal.

The results showed that the exchange rate was positively and significantly influenced by foreign debt. The increase in foreign debt will increase the exchange rate (the exchange rate of the US Dollar increases and the Rupiah depreciates) in Indonesia. Theoretically, a country in making foreign debt payments will increase the demand for foreign currency so that it tends to affect a country's exchange rate. This is in line with previous research by Yudiarti & Mustika (2018) in their research explaining that foreign debt has a positive and significant effect on the exchange rate or the rupiah exchange rate.

The Effect of Net Exports on Exchange Rate

Net exports have a positive and significant effect on the exchange rate, this is by the balance of payment theory, where net exports are often a factor that can push up and down the exchange rate of a country's currency so that the exchange rate will be largely determined by supply and demand against the US dollar. When there is a trade balance surplus, the demand for the rupiah becomes higher, this is due to obtaining Indonesian export commodities, foreign countries will need to exchange their currency into rupiah so that the purchasing power of the rupiah exchange against the US dollar will appreciate.

On the other hand, when there is a trade balance deficit, the rupiah exchange rate will depreciate because the demand for the rupiah is lower than the demand for the US dollar. This indicates that the Rupiah exchange rate weakened due to increased exports so that although the net export surplus was able to increase the availability of the US Dollar, it also strengthened the US Dollar, which was caused by the composition of Indonesia's exports which were dominated by raw materials, and exports of goods containing goods. Imports from the US as material so that it will increase demand for the US Dollar because exports goods as raw materials (import content). Meanwhile, on the export side, the increase was due to mineral fuel commodities such as coal, precious metals and also CPO.

The import movement data by category of goods based on data published by BPS are as follows.

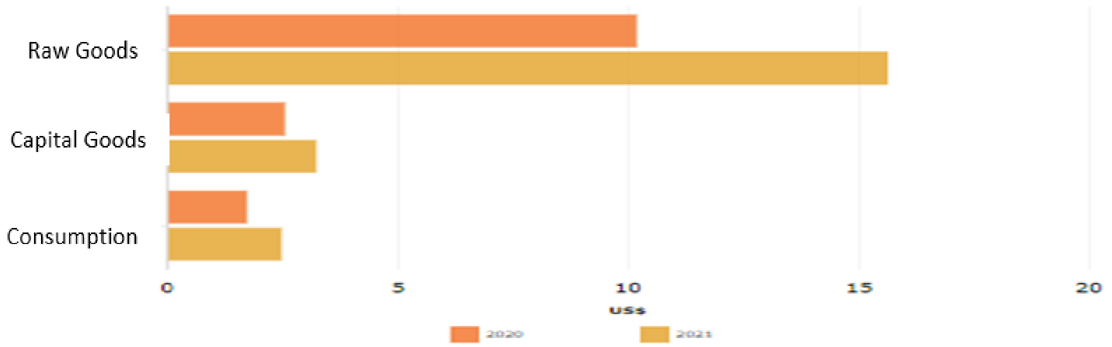


Figure 2. Import Value by Use of Goods (December 2020 and 2021)
Source. Indonesia's Central Bureau of Statistics

According to the BPS report, imports in April 2022, imports of raw materials and auxiliary goods experienced the fastest increase of 25.51% (yoy) to US$15.54 billion compared to imports of other categories of goods in line with increasing business activity in Indonesia, such as imports of consumer goods which only contributed to the growth of 4.2% (yoy) to US$1.7 billion. This indicates that the high import of auxiliary raw materials indicates that the demand in the industrial world is starting to increase and move faster.

The findings in this study are in line with the findings of previous research by Mustika et al., (2015) which stated that net exports had a positive and significant effect on the rupiah exchange rate per US dollar.

The Effect of External Debt on Economic Growth

Developing countries, one of which is Indonesia, need massive development in many fields, so they are in dire need of funding. To accelerate the implementation of development, one of the sources of funding comes from foreign debt, because funding from domestic sources is also very limited.

Foreign debt in the short term will be very helpful to cover the APBN deficit, but in the long term it will cause economic problems, so there must be a policy that allows Indonesia to reduce its foreign debt, or if it has to make foreign loans then the loans should be used. wisely, such as for productive expenditures such as infrastructure development, health, education, and social security for the community, so that in the future it is expected to provide benefits and can bring in foreign exchange due to the multiplier effect.

The findings in this study indicate a positive and significant influence of foreign debt on Indonesia's economic growth. Indonesia's economic growth which is positively and significantly influenced by foreign debt shows that the government has managed its foreign debt well, by building infrastructure and public advice in Indonesia. The private sector uses these loans to increase potential businesses and invest in businesses that have potential in the Indonesian economy, to create a multiplier effect so that economic growth in Indonesia will be encouraged. Foreign loans made by Indonesia have been able to facilitate the Indonesian economy in encouraging the economy to better utilize Indonesia's resources for production. The findings in this study are supported by Keynesian theories but contradict Neoclassical theories. According to Keynesian theory, the budget deficit is covered by using foreign debt, which means it will have a positive influence on the economy through the occurrence of a multiplier process. The findings in this study are supported by previous research by Khair & Rusydi (2016); and Putra & Sulasmiyati (2018) where Indonesia's economic growth is positively influenced by foreign debt.

The Effect of Net Exports on Economic Growth

Net exports in the theory of economic growth are components obtained from the expenditure side in the form of exports and imports. Net exports will make a positive contribution to national income if exports are higher in value than imports.

The findings in this study indicate that there is a positive and significant effect of net exports on Indonesia's economic growth, but the effect is not significant. The positive effect of net exports on economic growth shows that this is in line with the Keynesian Cross theory and the achievement of balance, namely, the size of national income growth is determined by the high level of consumption, government spending, the amount of investment and net exports, so that if exports increase, economic growth will also increase. . The insignificance of exports indicates that the contribution of exports to economic growth is still lacking, it can be seen that exports in Indonesia are still dominated by exports of primary goods, whose added value and productivity are low, so that they have not been able to move the economy significantly, especially in the absorption of labor, exports that are also dominated by products that use imported capital goods, so that the ability to export will be influenced by the ability to import.

Indonesia's main export destination countries are still in the last five years are still dominated by Asian countries outside ASEAN in the top position. It can be seen based on BPS data that the value of exports to Asian countries reached 71.79% of the total value of Indonesia's exports, and the largest was China at 27.9 million US$. The graph of Indonesia's export value by the destination country is as follows.

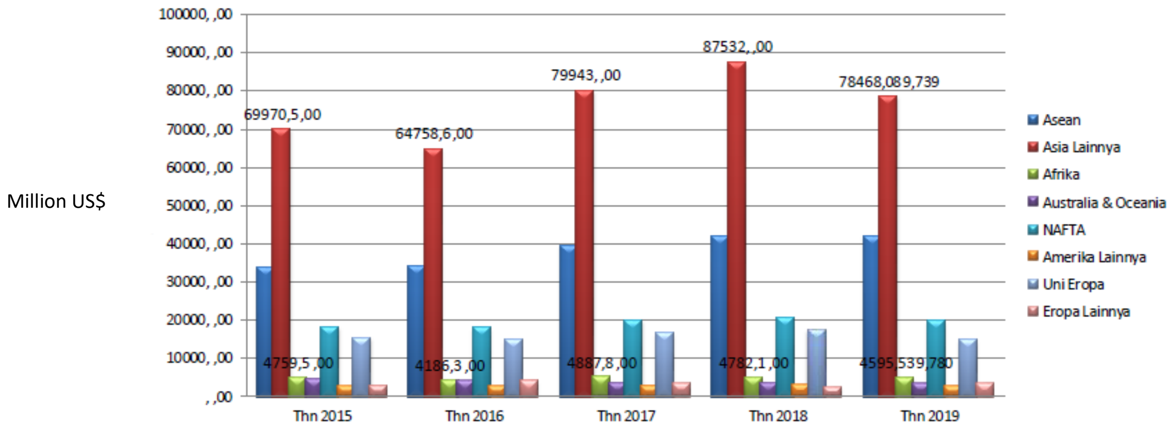


Figure 3. Indonesia's Export Value in 2015-2019 Based on Destination Countries

Source. Indonesia’s Central Bureau of Statistics

The Covid-19 pandemic has also had an impact on exports and the global economy. This is because many countries are in lockdown and so shipping activities from and to abroad are hampered and take a long time and increase logistics delivery costs. This condition of uncertainty has also made several countries prohibit or close the export of certain commodities, such as health and food, resulting in disruption of supply and demand chains. The Covid-19 condition made Indonesia's exports decline in 2020. China as Indonesia's largest trading partner recorded an export value of 16.7% smaller than imports of 26%. The graph of Indonesia's export value for 2016-2020 is as follows.

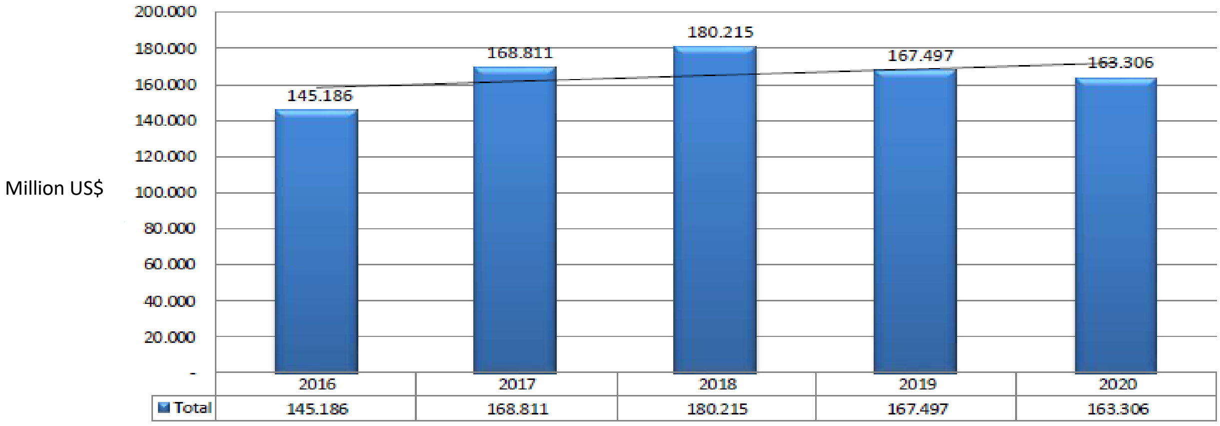


Figure 4. Indonesia's Export Value in 2016-2020
Source. Indonesia's Central Bureau of Statistics

Indonesia's exports are also still very oriented toward the trade-in raw materials, such as exports of Crude Palm Oil (CPO) (Rifin, 2010), forest wood and plywood (Lin, 1996); agricultural products (Sugiharti et al., 2020), and so on. This condition is to research by Asbiantari et al., (2018); and Wulandari & Zuhri (2019) which based on their research results show that economic growth is not significantly affected by net exports. This needs to be corrected by the government so that exports can contribute significantly to economic growth.

The Effect of Exchange Rate on Economic Growth
The exchange rate will greatly affect economic growth in Indonesia, it can be seen that when the exchange rate increases (the Rupiah depreciates) economic growth will also decline. Indonesia was in a slump due to the 1998 economic crisis, plus at that time Indonesia's political condition was also very unstable after President Suharto was ousted after 32 years in power. At that time 1998-1999 where the Rupiah depreciated badly which resulted in minus Indonesia's economic growth. The Indonesian economy began to improve in early 2000 when in October 1999 Abdurrahman Wahid (Gus Dur) was inaugurated as President replacing President B.J Habibie where economic growth was at minus 3 at that time to grow 4.9% in 2020 and the Rupiah appreciated slowly. This could not be separated from Gus Dur's efforts to keep the Unitary State of the Republic of Indonesia from being divided after the 1998 reform by visiting 50 countries on five continents just to lobby and acknowledge other countries and convince these countries that Indonesia's conditions are conducive. The graph of the comparison of the exchange rate and economic growth is as follows.

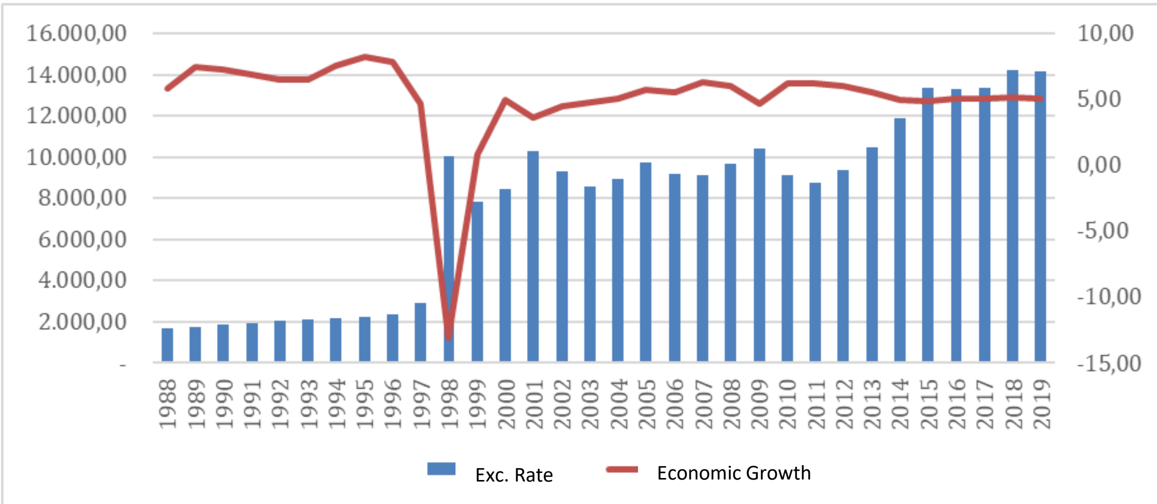


Figure 5. Comparison of Exchange Rates and Economic Growth in Indonesia in 1988-2019
Source: World Bank (data processed)

The findings in this study are supported by the Mundell-Fleming theory where economic growth is negatively affected by the exchange rate, besides the findings in this study are also supported by previous research by Pridayanti (2013); and Yazid (2018) where economic growth in Indonesia is influenced by negatively by the exchange rate, as well as research by Ismanto et al., (2019) that the exchange rate has a significant influence on economic growth.

V. CONCLUSION

Foreign Debt affects the increase in the Exchange Rate (Rupiah depreciates). The higher Indonesia's foreign debt, the higher the exchange rate so that the Rupiah will increasingly depreciate, this is because foreign debt is always converted to other currencies, creating a risk from the movement of the exchange rate. Foreign debt always uses the exchange rate of another country's currency which must be purchased by exchanging the Rupiah into another country's currency, so that when the Rupiah weakens (depreciates) against the US Dollar, the burden of foreign debt will also increase, plus the external condition factor. Globally and domestically.

Net Exports affect the increase in the Exchange Rate (Rupiah depreciates). The increase in Indonesia's net exports also made the US Dollar stronger, this was because Indonesia's net export goods tended to still use and rely on raw materials (raw materials) and materials imported from imports to make these export products so that the demand for the US Dollar will also be higher

Foreign Debt affects Economic Growth in Indonesia. The increase in foreign debt has led to an increase in economic growth in Indonesia. Foreign debt is very helpful in covering the APBN deficit, and for this foreign debt, the Indonesian government has managed loans well, by building infrastructure that will stimulate economic growth, such as infrastructure development, education, health, and social security. The private sector in Indonesia has also used foreign debt in investing and developing its business in a sector that has the potential to build the Indonesian economy.

Net Exports affect Economic Growth but not significantly. The increase in net exports will also increase economic growth in Indonesia although not significantly, this is because economic growth in Indonesia is still dominated by the consumption sector plus Indonesia's exports which are dominated by primary commodities which have added value and low production values so that they are unable to move the economy significantly, especially in the absorption of labor, and exports carried out also still have components of imported goods so that the ability to export will be influenced by the ability to import.

The exchange rate has a negative and significant effect on Economic Growth. With an increase in the exchange rate (The rupiah depreciates), the economic growth in Indonesia will decline. Improved economic growth will help support the Rupiah so that the Rupiah appreciates. Therefore, it is important to increase exports and reduce imports and dependence on raw materials from abroad. The increase in the exchange rate (the Rupiah depreciates) will also increase the burden of foreign debt, not to mention the world oil price which is entirely purchased using foreign currencies, where every weakening of the rupiah will greatly affect the Indonesian economy.

The findings in this study are used by the authors through input and suggestions to interested and concerned parties to be taken into consideration, including: (1) The government must maintain the fiscal policy and the APBN deficit by applicable laws and regulations, especially amid the current global situation. uncertainty, lest the large debt burden cause Indonesia be trapped in debt (debt trap). There must be a limit on the payment of principal and interest on foreign debt; (2) The current management of Indonesia's foreign debt should not be carried out arbitrarily. The importance of foreign debt loans to support project financing as well as for additional budget deficit financing requires the Government to carry out careful management starting from planning, implementation, administration, reporting, monitoring, evaluation, and supervision; (3) Cooperating with state-owned companies must try to use existing resources from within the country which will increase dividends as well as tax revenues; (4) The government should implement policies that can further increase the value of exports. Cessation of exports that are oriented towards raw materials (raw materials) and focus on increasing exports of semi-finished goods or finished goods that have higher added value in the form of royalties, foreign exchange, and non-tax state revenues. Furthermore, the Indonesian government and its ranks should always play an active role in maintaining the balance of exports and imports on an ongoing basis so that there is no trade balance deficit which ultimately has an impact on economic growth in Indonesia. In addition, the government is expected to maintain the debt-to-GDP ratio and prudent debt management; (5) The Indonesian people should assist the Government of Indonesia in increasing and maintaining the rupiah exchange rate such as not taking advantage of the weak condition of the Rupiah by buying US Dollars to gain profits by exchanging their Dollars when the Rupiah is depreciating, buying domestic products, investing in the country, entrepreneurship with export orientation, sing public transportation to reduce the fuel that the must be imported from abroad; and (6) For researchers who will conduct research in the future, it is expected to increase the period of observation and research variables so that more complete results are obtained.

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