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SCHOOL OF POLITICAL AND SOCIAL SCIENCE
Bandar Lampung University, Indonesia

Icon-LBG 2016

**The Third International
Conference on Law,
Business and Governance**

PROCEEDINGS

Hosted by
Faculty of Law, Faculty of Economics and Faculty of Social Science
Bandar Lampung University (UBL)

Icon-LBG 2016

THE THIRD INTERNATIONAL CONFERENCE
ON LAW, BUSINESS AND GOVERNANCE 2016

20, 21 May 2016
Bandar Lampung University (UBL)
Lampung, Indonesia

PROCEEDINGS

Organized by:



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PREFACE

The Activities of the International Conference are in line and very appropriate with the vision and mission of Bandar Lampung University (UBL) to promote training and education as well as research in these areas.

On behalf of the Third International Conference on Law, Business and Governance (3th Icon-LBG 2016) organizing committee, we are very pleased with the very good response especially from the keynote speaker and from the participants. It is noteworthy to point out that about 46 technical papers were received for this conference.

The participants of the conference come from many well known universities, among others : International Islamic University Malaysia, Unika ATMA JAYA, Shinawatra University, Universitas Sebelas Maret, Universitas Timbul Nusantara, Universitas Pelita Harapan, Universitas Bandar Lampung, Universitas Lampung.

I would like to express my deepest gratitude to the International Advisory Board members, sponsor and also to all keynote speakers and all participants. I am also grateful to all organizing committee and all of the reviewers who contribute to the high standard of the conference. Also I would like to express my deepest gratitude to the Rector of Bandar Lampung University (UBL) who give us endless support to these activities, so that the conference can be administrated on time

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FOREIGN DEBT MANAGEMENT ANALYSIS AND IMPACT ON ECONOMIC GROWTH

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Abstract

In an effort to achieve prosperity and welfare of the people needed a high economic growth, it is Necessary for development in all areas including physical infrastructure development such as Infrastructure and other development projects which are investments that pretty much need of funds, notTo mention the financing needs of others as listed in the state budget, also necessary to balance theBalance of payments. Meanwhile if domestic savings are not enough to finance all the investment required And the source for financing the state budget is not sufficient, the balance of payments (balance of Payment) is not balanced then the foreign debt be an alternative to cover the shortage of developmentFunds.

Keywords: Manaegement Analysis, Economic Grow

1. INTRODUCTION

A. BACKGROUND

In an effort to achieve prosperity and welfare of the people needed a high economic growth, it is necessary for development in all areas including physical infrastructure development such as infrastructure and other development projects which are investments that pretty much need of funds, not to mention the financing needs of others as listed in the state budget, also necessary to balance the balance of payments. Meanwhile if domestic savings are not enough to finance all the investment required and the source for financing the state budget is not sufficient, the balance of payments (balance of payment) is not balanced then the foreign debt be an alternative to cover the shortage of development funds.

Foreign debt can have a positive impact on economic growth if it can be managed and controlled properly, but otherwise will have a negative impact on economic growth if it is not managed and controlled properly. Based on data from external debt position data from the year 2010 till 2014 shows the amount continues to grow and even growth tends to be high, this is no indication of the country's dependency on development funding sources of foreign debt. Private debt and government debt is increasing while the Central Bank fluctuate as the following table:

Table 1
Foreign Debt Position by group Loans (In millions USD)

Classification	2010	2011	2012	2013	2014
Government	106,860	112,427	116,187	114,294	129,700
Central Bank	11,764	6,215	9,932	9,255	1,200
Private	83,789	106,732	126,245	140,512	162,800
Total	202,413	225,374	252,364	264,061	293,700

Source: Indonesian Finance Ministry

B. PROBLEMS

How is the management of foreign debt in order to have a positive impact on economic growth and can reduce dependence on foreign debt .

C.PURPOSE

Analyzing how the management of foreign debt in order to have a positive impact on economic growth and can reduce dependence on foreign debt .

D. USEFULNESS

As reference material consideration of the government in making policies related to pengelolaan foreign debt in order to increase economic growth and reduce dependence on foreign debt .

2. THEORETICAL FRAMEWORK

M. P. Todaro define economic growth as a steady process in which the production capacity of an economy increases over time to produce the level of national income increases. (M.P. Todaro , 2002) .Indicators to measure economic growth are : 1. Gross Domestic Product is the amount of final goods and services produced in the market price . 2. GDP per capita or per capita income . 3.Income Hourly Jobs. Several factors can affect output growth / economic growth can be attributed to foreign debt , namely : factors Investment / Capital that can be derived from foreign debt as a source of funding , which means that foreign debt with proper management it will enhance the investment that will be boost economic growth .

In relation to the amount of state budget revenues and expenditures of the state, there is a deficit or surplus conditions. Conditions deficit financing needed to cover the budget deficit which can be done by: Loans of the Interior, use of foreign exchange reserves or foreign loans

Impact of Foreign Debt on Economic Growth : a. Positive Impact: Harrod-Domar: Foreign debt can boost investment that further increase revenue and domestic savings and so on.. According to Eisner Foreign debt increases aggregate demand as a further effect of the accumulation of capital. Also increase income and welfare that will increase consumption. Negative Impact , Keith Griffin and John Enos in his book "Foreign Assistance: Objectives and Consequences". They filed empirical evidence that foreign debt is negatively correlated to economic growth and increase public savings. Foreign debt has made the government increased spending which reduces the urge to increase tax revenues and so on.

Debt overhang theories: that explains that the high rate of accumulation of external debt could hamper economic growth of a country means to illustrate that the larger a country's accumulated debt, it will decrease the ability to pay back the debt.

3. METHODOLOGY

This writing method using explanatory method that describes causal relationships between variables or causal relationships between variables are described Overseas Debt and economic growth . The data used is secondary data coherent - time (time -series) in 2010 up to 2014 obtained from the Central Statistics Agency (BPS) , Central Bank (BI) , the Ministry of Finance. Books of literature related to the issues discussed

Method of Analysis

The analytical method used is qualitative analysis examined data foreign debt , economic growth , HDI , income per capita

4. ANALYSIS

Total Overseas Debt is comprised of Debt Government , Central Bank and the private sector in total showed an increase from year to year as the following table

Table 2.
Foreign Debt Position by groups of loans (million USD)

Classification	2010	2011	2012	2013	2014
Government	106,860	112,427	116,187	114,294	129,700
Central Bank	11,764	6,215	9,932	9,255	1,200
Private	83,789	106,732	126,245	140,512	162,800
Total	202,413	225,374	252,364	264,061	293,700
Growth	-	11,34%	11,97%	4,63%	11,22%

Source : Indonesian Finance Ministry

According to the data in the table above the position of foreign debt within the last 5 years 2010 until 2014 has increased continuously until 2014. The increase in the foreign debt if managed properly then it will be in accordance with the objective being to promote economic growth in accordance with the theory

of Harrold Domar, but seen from the data on the growth of foreign debt (table 2) and economic growth (table 3) turns the growth of foreign debt is higher than the economic growth, and even economic growth has declined, suggesting that external debt management is still yet either so that the growth of debt followed by growth of smaller and even growth weakened. Or of the data showed the growth of foreign debt compared to economic growth, then during the period 2010 s.d. 2014 experienced a significant reduction inversely proportional to the increase in foreign debt this case in accordance with the theory of Debt overhang theories: that explains that the rate of accumulation of foreign debt are high can hamper economic growth of a country like this table

Tabel 3
 Economic growth 2010 sd 2014

Year	Economic Growth	Ups and Down
2010	6,8	-
2011	6,5	-0,3
2012	6,3	-0,2
2013	5,8	-0,5
2014	5,2	-0,6
2015 (Kw II)	4,67	-0,6

Source ; Central Bureau of Statistics

Foreign Debt were originally used as budget support to achieve public welfare, poverty alleviation, education, community development and infrastructure financing sectors of energy, transport and others considered less than optimal to function this can be evidenced by the following graph:

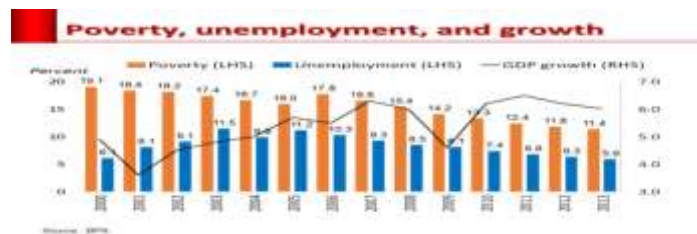


Figure 1
 Poverty,unemployment, and Grow

From the graph above about poverty, unemployment and economic growth obtained:

1. The poor (Poverty rate) tends to decrease measured by the percentage of the population It is the government's effort is quite successful in reducing the poverty rate by 2014 amounted to 11.25% of the population.
2. Unemployment (Unemployment) also tend to show decreasing numbers until year 2014 at 5.70% shows the success of the government reduce the unemployment
3. Growth in GDP since 2011 fluctuated and tended to decrease until 2014 showed still not optimal efforts to increase GDP, in line with the growth of foreign debt is higher. The other side to see the results of budget support foreign loans to public welfare with the size of per capita income and income distribution can be seen from the following figure :

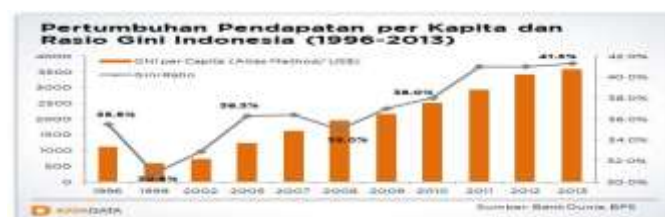


Figure 2
 Indonesian population per capita income tends

From the above picture can be seen that the Indonesian population per capita income tends to increase and this is a positive, but the income distribution as measured by the Gini ratio the higher indicates more

unequal distribution of income included in inequality was 0.36 sd 0.49 (Todaro, 2000) which means high income belongs only to certain circles such as businessmen, local and foreign investors and among the urban population while the population of rural / grassroots majority still low income, such as the following figure shows the distribution of income in society Top (20%) Moddle group (40%) and Bottom (40%)



Figure 3
 Income Distribution

Human Development Index (HDI) measures human development achievements based on a number of basic components of quality of life. As a measure of quality of life, HDI is built through a three-dimensional approach to the base. The dimensions include a long and healthy life; knowledge, and a decent life.

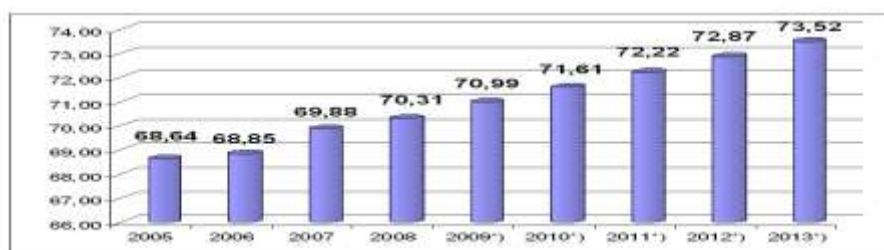


Figure 1
 Quality of Life For resident Indonesian

The image above shows the quality of life for residents of Indonesia during the last 8 years 2005 until 2013 has increased wellbeing of health, education and income

Management of the foreign debt burden

Foreign debt burden can be measured by the ratio in the table below:

Table 4
 Foreign Debt Burden 2010-2015

Classification	2010	2011	2012	2013	2014	2015
Debt service ratio	19,83	21,65	34,95	42,73	46,16	-
Debt Export ratio	109,83	97,30	113,55	121,78	-	-
Debt GDP ratio	24,50	23,10	23,0	24,90	24,7	24,7

Source :Indonesian Finance Ministry

From the financial indicators listed above, can be analyzed as follows:

1. The amount of debt service ratio (DSR) Indonesia's foreign debt is in the range 19% - 46%, which according to economic science in its early stages towards less secure because DSR touched the figure is above 45%. Ie at the end of 2013 DSR 2014 amounted to 42.73 and 46.16%. This figure exceeded the safe limit of the ratio of debt repayments.
2. Figures ratio of debt to exports of Indonesia are still in the range of 97% -121% with the balance of payments can still be supported by the State of export activity. Still in its early stages is safe to state that debt, because it is still below the figure of 200%. However, ever-increasing ratio is certainly a sign of increasingly heavy debt burden, this is due to non-optimal export while debt continues to grow.
3. Debt to GDP ratio, for Indonesia's foreign debt is still well within the corridor, with a ratio of 24.7% at the end of 2014 dam 24.7 in 2015. This shows an increase of debt is higher than the increase in GDP, it is a sign still less optimal pengelolaan debt in an effort to boost economic growth

The reality of what happened today on the use of private foreign debt more invested in the property sector and services in the country. Investment in the property sector and services are also considered not contribute significantly to the national production activities, so that the two sectors that received funds from the debt did not have a great added value for economic growth.

Debt burden in the form of installments and interest that the greater the shift the allocation of funds to spending another post. Indirectly, the community affected by the reduction in the proportion of spending on items related to the welfare of society such as:

- a. Shrinking proportion of the development budget allocation due to pay the debt and interest.
- b. The smaller the salaries of civil servants or in other words the proportion is very difficult for civil servants earn a significant salary increases
- c. Revocation of a wide range of electricity subsidies and fuel subsidies although it is one of the target

Foreign Debt Management and the solution Indonesia's foreign debt management is not optimal, so it has not had a great impact on economic growth several contributing factors, namely:

1. External debt has not been channeled into productive economic activity is investment in the country which produces faster (quick yielding) or produce products that can be exported. so many receipts that can be collected to finance economic development. To be continued reliance debt owed . Solutions to optimize project Agro Industries with various supporting factors. Indonesian agricultural country and maritime despite economic structure rests on the industrial sector. Idle land area of 72 million hectares could be economically productive optimized for agriculture land, estates, farms and supporting infrastructure, so that in time can be achieved self-sufficiency back ever achieved new order in the 90 and 98 so as it will be able to reduce the import of foodstuffs. The next results of the agricultural, forest plantations, animal husbandry, fisheries should be pursued government to be continued production in order to provide value added and export oriented, and thus the center of centers of agro-industries will be a lot of being in the country side close to the area of agriculture, plantation and fisheries that will create jobs, will increase farmers' income, reduced poverty, reduced unemployment, purchasing power is high, GDP would increase, exports also increased, so that the balance of payments and balance of trade can be surplus.
2. Improve the monitoring and evaluation functions of foreign loans to provide early warning against efforts to increase the effectiveness and performance of the absorption of the loan.
3. Vulnerable occurrence of leakage of foreign debt Leakage securing foreign debt, Suara Karya: January 28, 2003. The paper puts the problem of leakage of foreign loans "findings" Bappenas sniffing leak on the foreign debt, which annually account for about 20 percent of total loans received Indonesian government , (File: /// C: / Users / User / AppData / Local / Temp / Digital_blo_ F15390_Leakage Securing Debt Abroad

5. CONCLUSION AND SUGGESTIONS

A. CONCLUSION

1. The burden of foreign debt for five (5) years have increased regularly. Even in conditions that are safe, but if it can not be maintained properly, feared to be over the limit the ability of the state budget to finance expenditure payments of principal, interest and fees of foreign debt.
2. The government policies have not been effective to reduce the rate of growth of foreign debt. Reflected in the rising debt ratio indicated increase the burden of government spending. Loading too heavy on the budget will affect the economic welfare of society and undermine the nation's economic growth. Especially when faced with the influence of the global economy in the future, such as free trade, rising world oil prices and the inflation factor, would be very worrying if the foreign debt burden can not be suppressed in the near future

B.SUGGESTION

1. Government programs to manage the debt policy has been compiled. But still need to be supported by domestic policy with increased funding from the domestic sector.
2. Optimizing sector, especially state revenue from non-tax sector can be pushed even further. Maximizing the potential of all natural resources and economy in the country to meet the needs of the

- nation and is expected to increase exports as a stabilizer / driver of the balance of payments abroad. Besides increasing the role of the private sector as a partner of government in the provision of goods and services to increase Gross Domestic Product (GDP)
3. Lowering the debt to GDP ratio: by way of control of the financing coming from loans; Negative net flow; Directed that the utilization of the loan must be for productive activities that increase added value or increase the capacity of the economy.

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