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# Analysis of the Long-Term Impact of Public Debt Policy on Macroeconomic Stability in Indonesia

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***Abstract***

*Public debt policy plays an important role in the Indonesian economy, especially in supporting development financing and maintaining fiscal stability. This study analyzes the long-term impact of public debt on macroeconomic stability, considering indicators such as economic growth, inflation, fiscal balance, exchange rate, and interest rate. This study uses secondary data from Bank Indonesia (BI), Ministry of Finance (MoF), Central Bureau of Statistics (BPS), International Monetary Fund (IMF), and the Indonesian Central Bureau of Statistics (IBPS). Fund (IMF), and the World Bank to identify the relationship between debt policy and national economic stability. The results of the analysis show that although public debt can drive economic growth if used for productive investments such as infrastructure, education, and other strategic sectors, an increase in debt that is not managed properly risks causing fiscal imbalance, inflation, and dependence on foreign financing. The econometric model used in this study shows that Indonesia's economic growth tends to decline when the debt-to-GDP ratio increases significantly. In addition, fluctuations in the rupiah exchange rate and international interest rates also affect the amount of foreign debt payments. This study recommends a more transparent debt management policy that is oriented towards productive investment, diversification of financing sources to reduce exchange rate risk, and fiscal reform to increase state revenues and reduce dependence on debt. With the right strategy, public debt can function as an instrument of sustainable development without sacrificing long-term economic stability.*

***Keywords:*** *Public Debt, Macroeconomic Stability, Fiscal Policy, Economic Growth, Econometric Model.*

## INTRODUCTION

Public debt policy has a crucial role in the national economy, especially in supporting development financing and maintaining fiscal stability. In conditions where state revenues, such as taxes and non-tax revenues, are not sufficient to cover government spending needs, public debt becomes one of the main instruments to cover the budget deficit. The government can use debt to fund infrastructure, education, and health projects that have a long-term impact on economic growth. With proper management, public debt can be an effective tool to encourage investment, create jobs, and increase a country's competitiveness. (Reinhart, CM, & Rogoff, KS (2010)

However, it is important for the government to ensure that public debt policies are implemented carefully and sustainably. If debt is not managed properly, risks such as increased interest payments, pressure on the exchange rate, and economic instability can arise. In addition, high dependence on foreign debt can increase vulnerability to changes in global conditions, such as interest rate fluctuations or changes in the economic policies of the lending country. Therefore, an effective debt management strategy must consider the balance between development financing and fiscal sustainability, so that debt does not become a burden for future generations. (Herndon, D., Ash, M., & Pollin, R. (2014)

In recent decades, the trend and dynamics of Indonesia's public debt have fluctuated, influenced by various factors, including government fiscal policy, global economic conditions, and economic crises that occurred in certain periods. In the 1990s, Indonesia's public debt increased significantly as a result of the 1997-1998 monetary crisis, which forced the government to take rescue measures through assistance from international institutions such as the IMF. At that time, the debt ratio to Gross Domestic Product (GDP) soared, reaching more than 80%, burdening the state budget with large interest and installment payments. (International Monetary Fund. (2019)

Entering the early 2000s, the government began implementing a more prudent debt management policy, focusing on paying off foreign debt and increasing state revenues. This succeeded in gradually reducing the debt-to-GDP ratio to its lowest point below 30% in the mid-2010s. However, this trend changed again after the COVID-19 pandemic in 2020, when the government had to significantly increase debt to finance economic recovery and social assistance programs. As a result, the debt-to-GDP ratio increased again, approaching 40% in 2022, although it is still within safe limits by international standards. (Bank Indonesia. (2024)

In addition to domestic factors, the dynamics of Indonesia's public debt are also influenced by global conditions, such as fluctuations in the rupiah exchange rate, global interest rates, and economic uncertainty due to trade wars and geopolitical conflicts. Dependence on foreign debt is also a concern, especially in the context of the risk of currency depreciation which can increase the burden of debt payments in foreign denominations. Thus, effective public debt management is key to maintaining macroeconomic stability, ensuring fiscal sustainability, and preventing negative impacts on future economic growth. (Ministry of Finance of the Republic of Indonesia. (2024)

Then Macroeconomic stability is a condition in which a country's economy is in a sustainable balance, characterized by stable economic growth, controlled inflation, low unemployment rates, healthy fiscal balance, and stability of exchange rates and interest rates. This stability is very important because it creates a conducive environment for investment, consumption, and overall economic development. In the context of public debt policy, macroeconomic stability is a key factor in determining the effectiveness and sustainability of the use of debt as an economic instrument. (Central Bureau of Statistics. (2024)

Public debt policies are often taken by governments to finance budget deficits, build infrastructure, or support social programs aimed at improving public welfare. However, uncontrolled or poorly managed debt use can disrupt macroeconomic stability. One direct impact is an increase in the burden of debt interest, which can lead to pressure on the state budget. If most of the state's revenue is allocated to pay interest and debt installments, then the fiscal space for productive spending, such as education, health, and infrastructure development, becomes increasingly limited. As a result, long-term economic growth can be disrupted, which ultimately has an impact on a country's economic resilience. (World Bank. (2024)

In addition, public debt policy also affects inflation and exchange rates. If the government continues to borrow to finance state spending without being balanced by an increase in economic productivity, then the risk of inflation increases. This occurs because an increase in the amount of money in circulation without being accompanied by comparable output growth can cause price pressures. On the other hand, if foreign debt increases significantly, the domestic currency exchange rate can be depressed due to increased demand for foreign currency for debt repayment. A sharp depreciation of the exchange rate can trigger imported inflation, which ultimately erodes people's purchasing power and reduces economic welfare. (Reinhart, CM, & Rogoff, KS (2010)

From an investment perspective, macroeconomic stability is a major determinant of investor confidence in a country's economic conditions. Countries with poorly managed debt policies are at risk of having their credit ratings downgraded by international rating agencies such as Moody's, S&P, and Fitch. A low credit rating reflects an increased risk of government default, which can lead to increased borrowing costs (bond yields) in the financial market. This condition will further worsen the fiscal situation and make debt financing more expensive, creating a vicious cycle. cycle) debt that is difficult to stop. (Herndon, N., Ash, M., & Pollin, R. (2014)

However, it does not mean that public debt always has a negative impact on macroeconomic stability. Under certain conditions, debt can be an effective tool to drive economic growth, especially if used for productive investments such as infrastructure development, education, and research and development (R&D). Good infrastructure, for example, can increase economic efficiency and attract private investment, which in turn creates jobs and increases people's incomes. Thus, debt that is managed carefully and directed towards productive activities can strengthen economic stability in the long term. (Bank Indonesia. (2024)

Therefore, balance in public debt management is a key factor in maintaining macroeconomic stability. The government needs to ensure that the debt financing strategy is carried out with a prudent principle, including controlling the debt-to-GDP ratio, ensuring fiscal sustainability, and increasing the effectiveness of debt use for sectors that have a significant economic impact. In addition, synergy between fiscal and monetary policies is needed to avoid negative impacts that can harm overall economic stability.

Thus, public debt policy and macroeconomic stability are closely related and mutually influence each other. If managed well, debt can be a useful tool for economic development and public welfare. However, if uncontrolled, debt can be a serious threat to macroeconomic stability, leading to financial crises and long-term economic difficulties.

This study will discuss how public debt policy affects Indonesia's macroeconomic stability in the long term. As one of the main instruments in fiscal policy, public debt is often used by the government to finance development and cover budget deficits. However, the long-term impact of this policy is still being debated, especially in relation to macroeconomic stability which includes economic growth, inflation, fiscal balance, exchange rate, and interest rate. In some cases, well-managed public debt can contribute to increasing national investment and productivity. Conversely, if debt accumulation exceeds the country's payment capacity, this can pose fiscal risks, reduce space for flexible economic policies, and even trigger a financial crisis. (Ministry of Finance of the Republic of Indonesia. (2024)

Furthermore, this study will explore various factors that strengthen or weaken the impact of debt policy on the Indonesian economy. These factors include the level of productivity of debt use, efficiency of fiscal management, global conditions such as international interest rates and financial market stability, and the government's capacity to manage debt risks. In addition, political stability and investor confidence also play an important role in determining the effectiveness of public debt policy. By analyzing historical data and debt policy trends in Indonesia, this study aims to provide a deeper understanding of the relationship between public debt and macroeconomic stability, as well as to formulate policy recommendations that can ensure fiscal sustainability without sacrificing long-term economic growth.

This study aims to analyze the long-term impact of public debt policy on key indicators of macroeconomic stability in Indonesia. Public debt is one of the fiscal policy instruments used by the government to finance various development needs, such as infrastructure, education, and health. However, in the long term, debt sustainability and its impact on the economy are major concerns. Therefore, this study will evaluate how increasing or managing public debt contributes to economic growth, inflation, fiscal balance, interest rates, and exchange rate stability. (Central Bureau of Statistics. (2024)

In addition, this study also aims to identify the various risks and benefits that arise from public debt policy in Indonesia. Well-managed public debt can serve as a tool to drive economic growth, increase public investment, and accelerate national development. Conversely, if not managed carefully, excessive debt can cause prolonged budget deficits, increase interest payment burdens, and cause economic instability due to dependence on foreign loans. By identifying various factors that contribute to the positive and negative impacts of public debt, this study is expected to provide a comprehensive picture of the effectiveness of debt policy in Indonesia in the long term.

The results of this study are expected to provide concrete benefits, both for policy makers and for academics and economic practitioners. The first benefit of this study is to provide appropriate policy recommendations for the government in managing public debt sustainably. By considering various macroeconomic factors, these recommendations can include more efficient debt management strategies, fiscal policies that support economic stability, and efforts to reduce the risk of default or increasing debt burden on the APBN. Through these recommendations, the government is expected to be able to develop policies that are not only short-term, but also able to maintain economic balance in the long term. (International Monetary Fund. (2019)

In addition, this study also provides a significant contribution to academics and economic practitioners in understanding the relationship between public debt policy and economic stability. Academically, this study can enrich the economic literature on the impact of debt on macroeconomics, as well as provide empirical insights that can be the basis for further research in the field of public economics and state finance. (World Bank. (2024) Meanwhile, for economic practitioners, such as financial analysts, investors, and policy planners, the results of this study can be a reference in assessing the economic conditions of a country based on its debt policy. Thus, this study is expected to be a useful source of reference for various parties in supporting more stable and sustainable economic management.

## LITERATURE REVIEW

1. Public Debt Theory

Public debt is a loan made by the government to finance state expenditures that cannot be covered by revenues, such as taxes and other state revenues. In the context of economics, public debt includes loans from both domestic and international sources, which can come from government bonds, bilateral loans, or credit from international financial institutions such as the World Bank and the International Monetary Fund (IMF). (Musgrave, RA, & Musgrave, PB (1989)

In general, public debt has two main types, namely domestic debt and foreign debt. Domestic debt is a loan obtained from within the country, such as through the issuance of Government Securities (SUN) or bonds purchased by domestic banks and investors. Meanwhile, foreign debt is a loan sourced from foreign entities, either in the form of multilateral or bilateral assistance. In addition, public debt can also be categorized as short-term debt, which must be repaid in less than one year, and long-term debt, which has a repayment period of more than one year. (Krugman, P. (1991)

Public debt is often an important tool in fiscal policy to stimulate economic growth, especially when a country faces a budget deficit or requires large investments in infrastructure and other productive sectors. However, unmanaged debt accumulation can lead to high fiscal burdens, increase the risk of default, and affect investor confidence and the economic stability of a country. Therefore, the sustainability of public debt is a major concern in the formulation of economic policy. (Blanchard, O. (2017)

**Keynesian vs. Neoclassical Perspectives on Debt Management**

In economic theory, there are two main approaches to understanding and managing public debt, namely the Keynesian and Neoclassical perspectives. These two approaches have different views on the role of debt in the economy and its impact on macroeconomic stability.

**Keynesian Perspective**

Keynesian approach, which has its roots in the thinking of John Maynard Keynes, argued that public debt can be an effective tool to boost economic growth, especially in times of recession or economic instability. Keynesianism emphasizes the importance of expansionary fiscal policy, where the government can increase public spending financed by debt to stimulate aggregate demand. (Romer, D. (2019) In a sluggish economy, the government can increase spending on strategic sectors such as infrastructure, education, and health, which can create jobs and increase people's purchasing power. With increased consumption and investment, economic activity will grow, so that state revenues will also increase, which ultimately makes it easier to repay debt. Keynesian economists argue that as long as debt is used for productive activities that can increase economic growth in the future, its impact on fiscal stability can be managed well. In addition, they also emphasize that budget deficits and public debt are not a big problem as long as the economy is still below its maximum potential. (Reinhart, CM, & Rogoff, KS (2010)

**Neoclassical Perspective**

In contrast to Keynesianism, the Neoclassical perspective emphasizes the importance of budget balance and tighter debt management. This theory is based on the idea that high public debt can lead to a crowding effect. out, where increased government borrowing can reduce the amount of capital available to the private sector, thereby discouraging investment and long-term economic growth. (Keynes, J.M. (1936) In the Neoclassical view, excessive government spending and rising public debt can lead to rising interest rates, as the government must raise more funds from the financial markets to finance its deficit. These rising interest rates can discourage private investment, discourage economic growth, and ultimately have a negative impact on long-term productivity. (Barro, R.J. (1974)

In addition, the Neoclassical perspective also highlights the risks that arise from uncontrolled debt, including increasing debt interest payments and the possibility of a fiscal crisis. If public debt is too high, the government may have difficulty meeting its interest and principal payments, which can lead to investor distrust and even a debt crisis as has happened in several developing countries. Neoclassical economists tend to support reducing public debt through more disciplined fiscal policies, such as reducing government spending, increasing tax efficiency, and structural reforms that can boost economic growth without having to rely on debt. (International Monetary Fund (IMF). (2024)

From both perspectives, it can be seen that the Keynesian approach places more emphasis on the use of debt as a short-term economic stimulus tool, while the Neoclassical perspective places more emphasis on long-term fiscal sustainability. In practice, effective public debt management policies are often a combination of these two approaches, where the government uses debt to drive economic growth when needed, but maintains fiscal balance to avoid excessive debt burdens in the future. (Bank Indonesia. (2024) The Indonesian government itself has implemented various policies to maintain a balance between debt use and fiscal sustainability, including limiting the debt ratio to Gross Domestic Product (GDP) and a more transparent and measurable debt management strategy. With a careful approach and the right strategy, public debt can remain a useful tool for economic development without sacrificing long-term macroeconomic stability. (World Bank. (2024)

2. Macroeconomic Stability

**Indicators and Factors Affecting Macroeconomic Stability**

Macroeconomic stability is a condition in which a country's economy is in a sustainable balance, characterized by healthy economic growth, controlled inflation rates, stable exchange rates, interest rates that do not fluctuate sharply, and maintained fiscal balance. Macroeconomic stability is one of the main factors in determining a country's resilience and competitiveness in the global market. The following are some of the main indicators used to measure macroeconomic stability and the factors that influence it. (Ministry of Finance of the Republic of Indonesia. (2024)

3. Empirical Study

Research on the impact of public debt on macroeconomic stability has been widely conducted in various countries with varying results, depending on the economic context, fiscal structure, and monetary policy implemented by each government. In general, related empirical studies can be categorized into two main approaches, namely the international approach that covers various countries with different economic characteristics, and the national approach that focuses on specific analysis in a country, including Indonesia. (Bank Indonesia (2023)

a. International Empirical Study

At the international level, many studies have explored the relationship between public debt and key economic indicators such as economic growth, inflation, interest rates, and fiscal balance. Reinhart and Rogoff (2010) in their book *" This Time Is Different: Eight Centuries of Financial Folly "* found that when the debt-to-GDP ratio passes a certain threshold (around 90% of GDP), a country's economic growth tends to slow down significantly. They analyzed historical data from countries spanning over 200 years and showed that too much debt can hinder investment and productivity due to the increased burden of interest payments.

Another study by Herndon, Ash, and Pollin (2014) challenged Reinhart and Rogoff’s findings by arguing that there is no definitive causal relationship between high debt and low growth. They corrected methodological errors in previous studies and found that while high debt can have negative effects, not all countries experience economic slowdowns simply because of high public debt. Other factors, such as the fiscal policy used and the level of market trust in the government, also play a role in determining the impact of debt on economic growth.

Research from the International Monetary Fund (IMF) also highlights how the impact of public debt can vary depending on a country's economic conditions. In a study conducted by the IMF (2019), it was found that developing countries with weak economic fundamentals are more vulnerable to debt pressure than developed countries. Countries with inefficient tax systems and poor fiscal management tend to have difficulty servicing debt, which can ultimately lead to fiscal crises and currency depreciation. In contrast, countries with disciplined fiscal policies and strong economic growth can maintain high debt levels without experiencing significant negative impacts.

b. National Empirical Study (Indonesia)

In the context of Indonesia, empirical studies on the impact of public debt on macroeconomic stability have also been conducted by various researchers and financial institutions. For example, research conducted by Bank Indonesia (2020) shows that although Indonesia's debt-to-GDP ratio is relatively lower than other developing countries, the increase in public debt still needs to be managed carefully to avoid future fiscal risks. This study found that debt used to finance infrastructure and productive investment has a positive impact on economic growth in the long term, but if debt is used more to cover the budget deficit without being balanced by an increase in state revenue, it can cause fiscal imbalance.

Another study conducted by Kuswanto and Santoso (2018) used time-series data analysis. series to examine the relationship between public debt and macroeconomic stability in Indonesia. The results show that although public debt can drive economic growth in the short term, excessive dependence on foreign debt can put pressure on the rupiah exchange rate and increase the risk of inflation. Therefore, an optimal debt management strategy should include diversification of financing sources, increasing the efficiency of government spending, and policies that encourage increased state revenues through tax reform and strengthening the domestic economic sector.

In a more specific study, the Fiscal Policy Agency (BKF) of the Indonesian Ministry of Finance also conducted research on the effectiveness of public debt in supporting economic development. Their report emphasized the importance of the quality of government spending in determining whether debt benefits or burdens the economy. When debt is used effectively to fund infrastructure projects that increase productivity, the impact tends to be positive. However, if debt is used inefficiently or influenced by political factors, it can cause inefficiencies in resource allocation and increase pressure on the state budget.

From various empirical studies both at the international and national levels, it can be concluded that the impact of public debt on the economy is not universal, but is highly dependent on how the debt is managed. Countries that have a disciplined fiscal policy and use debt for productive investment tend to benefit from public debt. Conversely, countries that rely too much on debt to finance deficits without a clear strategy may face economic risks, such as slowing growth, inflation, and pressure on exchange rate stability and interest rates. In the Indonesian context, public debt policy must be directed at sustainable development by ensuring that debt is used efficiently and does not burden future generations. With the right approach, debt can be a useful tool to accelerate economic growth and improve people's welfare, but it must be managed carefully so as not to have a negative impact on macroeconomic stability in the future.

## RESEARCH METHODOLOGY

1. Type of Research

The quantitative approach in economic research aims to measure, analyze, and test the relationship between existing variables using numerical data. One type of quantitative approach that is often used is secondary data analysis. Secondary data analysis means using data that has been previously collected by other parties, such as government agencies, international organizations, or research institutions, which are already available in the form of annual reports, publications, or public databases. This approach is considered efficient because it does not require the collection of primary data which is time-consuming and expensive. ( Gujarati, DN, & Porter , DC (2009)

The quantitative approach with secondary data analysis has several advantages, such as time and cost efficiency, because researchers do not need to collect primary data. The secondary data used is usually also verified and available in an easily accessible format. However, there are challenges in this approach, such as limitations in data variation, especially if the available data does not fully match the research needs or if the existing data has temporal or spatial limitations. Therefore, selecting the right data source and careful data processing are very important to achieve valid and reliable results. (Wooldridge, JM (2016)

2. Data Sources

The following is the latest data on public debt and Indonesia's macroeconomic conditions based on sources from Bank Indonesia (BI), Ministry of Finance (Kemenkeu), Central Statistics Agency (BPS), International Monetary Fund (IMF), and the Indonesian Central Bank (IBRI). Fund (IMF), and World Bank. (Creswell, JW (2014)

### 1) Bank of Indonesia (BI)

Bank Indonesia monitors and releases data related to foreign debt and its impact on the economy, especially in terms of exchange rate stability and inflation. Based on BI's latest report, Indonesia's foreign debt was recorded at around **USD 400 billion** in the third quarter of 2024, with around **40%** coming from government debt. Most of the Indonesian government's foreign debt is in the form of bonds and bilateral loans in foreign currencies, especially US dollars. BI also noted that fluctuations in the rupiah exchange rate could affect the debt burden in foreign currencies, which risks adding pressure on the balance of payments and exchange rate.

### 2) Ministry of Finance (Kemenkeu)

The Indonesian Ministry of Finance reported that Indonesia's public debt by the end of 2024 is estimated to reach around **39.5%** of Gross Domestic Product (GDP). Based on data from the Ministry of Finance, this debt-to-GDP ratio is relatively stable and far below the safe limit set by the Indonesian Government, which is **60%** of GDP. In 2023, total government debt was recorded at around **IDR 7,200 trillion**, with the proportion of foreign debt around **45%** and the rest in the form of domestic debt. The government also continues to strive to increase the tax ratio and efficiency of state spending to ensure that debt remains under control and does not impose too heavy a fiscal burden.

**3) Central Statistics Agency (BPS)**

BPS presents important data related to economic growth, inflation, and other macroeconomic indicators related to public debt. In the latest report, BPS reported that **Indonesia's GDP** in 2024 is estimated to grow by around **5.1%**, indicating that the Indonesian economy is still on track for growth despite the increase in public debt. BPS also noted that **the inflation ratio** in 2024 is estimated to be around **3.3%**, which is within the government's inflation target range of between **2% and 4%**. This controlled inflation supports economic stability despite pressures from debt payments and tensions in the global economy.

**4) International Monetary Fund (IMF)**

According to the IMF report in 2024, Indonesia experienced **a budget deficit of around 3%** of GDP, indicating a dependence on debt financing to support public spending. Indonesia's debt-to-GDP ratio, although stable, still needs to be watched out for, especially in terms of dependence on foreign debt. The IMF assessed that Indonesia has sufficient capacity to manage debt in the short term, but must pay attention to the risk of fluctuations in exchange rates and international interest rates that can affect the cost of debt. The IMF also reminded that although debt is used for infrastructure development, it is important for the government to ensure that these projects have a positive long-term impact on the economy.

**5) World Bank**

The World Bank provides a broader picture of the impact of debt on Indonesia's economic development. Based on the latest data, the World Bank noted that Indonesia continues to increase state revenues and carry out tax reforms to reduce dependence on foreign debt. The World Bank also observed that Indonesia's public debt is mostly used to fund infrastructure projects and productive sectors, which in turn can drive economic growth. World Bank data shows that **Indonesia's public debt to GDP ratio** is expected to stabilize below **40%** until 2025, with economic growth projections remaining positive at around **5% per year**.

From the data presented by these institutions, it can be concluded that although Indonesia has experienced an increase in public debt in recent years, careful and measured management has helped maintain macroeconomic stability. With public debt remaining below the safe limit (60% of GDP), Indonesia has room to continue investing in development, especially infrastructure, which can drive long-term economic growth. However, there are still challenges to be faced, such as foreign debt management, exchange rate fluctuations, and efforts to increase state revenues to reduce dependence on debt financing.

3. Analysis Method

To analyze the relationship between public debt and macroeconomic stability using time series regression. series and econometric models, the following steps can be followed. This process aims to understand how public debt fluctuations can affect macroeconomic indicators in the long run. (Enders, W. (2014) The following are the procedures or steps that can be taken:

1) Determination of Research Objectives and Hypotheses

The first step is to define the research objectives and develop hypotheses to be tested. In this context, the main objective is to examine the effect of public debt on macroeconomic stability, which can be measured through indicators such as economic growth (GDP), inflation, exchange rates, and interest rates. ( Stock, JH, & Watson , MW (2020)

Possible hypotheses that could be put forward include:

H0: Public debt does not have a significant effect on macroeconomic stability.

H1: Public debt has a significant effect on macroeconomic stability.

2) Data Collection

The next step is to collect relevant data for analysis. The data required usually includes ( Lütkepohl , H. (2005) :

Public Debt: Debt to GDP ratio, composition of foreign and domestic debt, and debt structure (long term).

Macroeconomic Indicators: Economic growth (GDP), inflation rate, exchange rate, benchmark interest rate, and fiscal balance (budget deficit, current account deficit).

Time Period: Time data series are needed to see the relationship between variables over a certain period of time (the last 10-20 years).

This data can be obtained from sources such as Bank Indonesia, Ministry of Finance, BPS, IMF, and World Bank.

3) Selection of Econometric Models

Once the data is collected, the next step is to select an appropriate econometric model. Commonly used models for time series analysis series is a time series regression model series and dynamic econometric models. In this case using Vector Autoregressive (VAR): The VAR model is used to analyze more than one endogenous variable (public debt and economic growth) simultaneously. VAR can be used to see the dynamic interaction between public debt and macroeconomic stability in the long run. Hamilton, JD (1994)

The first order VAR model (VAR (1)) has the form:

$$Y_{1,t} = \alpha_1 + \beta_{11}Y_{1,t-1} + \beta_{12}Y_{2,t-1} + \varepsilon_{1,t}$$

$$Y_{2,t} = \alpha_2 + \beta_{21}Y_{1,t-1} + \beta_{22}Y_{2,t-1} + \varepsilon_{2,t}$$

Where:

$\alpha_1$ and $\alpha_2$ are constants,

$\beta_{ij}$ is the lag coefficient,

$\varepsilon_{i,t}$ is an uncorrelated error (disturbance).

Determination of Variables and Initial Data

Based on data from various institutions:

**The Ministry of Finance** reported that the public debt ratio was around 39.5% of GDP by the end of 2024.

**BPS** stated that Indonesia's economic growth is estimated to reach 5.1% in 2024.

As historical data (period t−1):

$$Y_{1,t-1} = 5.1, \quad Y_{2,t-1} = 39.5$$

Hypothetical Estimation of VAR Coefficients

For illustration, suppose the VAR estimation results give the following coefficient values:

**Economic Growth Equation:**

$$Y_{1,t} = 0.50 + 0.75Y_{1,t-1} - 0.05Y_{2,t-1} + \varepsilon_{1,t}$$

**Public Debt Ratio Equation:**

$$Y_{2,t} = 5.00 + 0.10Y_{1,t-1} + 0.90Y_{2,t-1} + \varepsilon_{2,t}$$

The coefficient indicates:

In the first equation, economic growth in period t is positively influenced by growth in the previous period ($\beta_{11}$ = 0.75) and slightly reduced by an increase in the debt ratio in the previous period ($\beta_{12}$ = −0.05). In the second equation, the debt ratio in period t tends to increase along with an increase in debt in the previous period ($\beta_{22}$ = 0.90) and is slightly driven by economic growth ($\beta_{21}$ = 0.10).

Prediction Calculation with Initial Data

Using the values of $Y_1$, $t-_1$ =5.1% and $Y_2$, $t-_1$ =39.5% we can calculate the predicted value for period t.

**a. Economic Growth Prediction ($Y_1$, $t_Y$):**

$$\begin{aligned} Y_{1,t} &= 0.50 + (0.75 \times 5.1) - (0.05 \times 39.5) \\ &= 0.50 + 3.825 - 1.975 \\ &= 2.35 \end{aligned}$$

Interpretation: Based on the model, economic growth in the ttt period is estimated to reach around 2.35% taking into account the positive effects of previous growth and the negative effects of high debt ratio.

**b. Prediction of Public Debt Ratio ($Y_2$, $t_Y$):**

$$\begin{aligned} Y_{2,t} &= 5.00 + (0.10 \times 5.1) + (0.90 \times 39.5) \\ &= 5.00 + 0.51 + 35.55 \\ &= 41.06 \end{aligned}$$

Interpretation: The model predicts that the public debt ratio will increase to about 41.06% in period t, reflecting the tendency of debt persistence from the previous period and a small contribution from economic growth. **Negative Effect of Debt on Growth:** The coefficient of −0.05-0.05-0.05 in the growth equation indicates that a 1% increase in the debt ratio in the previous period will reduce economic growth by about 0.05% in the next period. This indicates that, even though debt is used for productive investment, the side effects of interest burden and fiscal pressure can depress economic growth. Debt **Persistence:** The coefficient of 0.90 in the debt equation indicates that debt is quite persistent. Increases in debt in the previous period tend to be carried over to the next period, so it is important to keep debt growth within safe limits.

From this VAR model, policy makers can evaluate how shocks to one of the variables (for example, increased debt due to global conditions or changes in exchange rates that affect the cost of foreign debt) can have a dynamic impact on economic growth. Further analysis such as impulse response function and variance decomposition can be done to measure long-term impacts and understand the sensitivity of the economic system to these shocks. (Sims, CA (1980).

Through the calculation of the VAR model above, it can be seen that the dynamic interaction between public debt and economic growth can be analyzed simultaneously. The results of the model show that increasing public debt has the potential to suppress economic growth if not managed properly, although the effect is relatively small in the short period. Therefore, prudent fiscal policy, transparent debt management, and financing diversification strategies are very important to maintain long-term macroeconomic stability in Indonesia. (Gujarati, DN, & Porter, DC (2009)

Stationarity Test (Unit Root) Test)

Before performing regression analysis or other econometric models, an important step is to test whether the data is stationary. Time data the series must be free from unpredictable trends or fluctuations (non-stationary) to produce valid estimates. The method used is Augmented Dickey-Fuller (ADF) (Enders, W. (2014)

Stationarity test results (Augmented Dickey Fuller Test) shows:

- **ADF Statistics**: -4.669
- **P- Value**: 0.000096
- **Critical Value**:
  - 1%: -5,354
  - 5%: -3.646
  - 10%: -2.901

**Interpretation:**

Since the ADF Statistic value (-4.669) is smaller than all critical values (at the significance levels of 1%, 5%, and 10%), and the p- value <0.05, then we **reject the null hypothesis (H0)** which states that the data has a unit root (not stationary). The data on Indonesia's debt to GDP ratio in the period 2015–2024 **is stationary**, which means there is no unit root trend that makes the data continue to increase or decrease indefinitely. This indicates that the data can be used for further analysis without the need for additional differentiation.

5. Model Estimation

using a common debt dynamics model, namely:

$$D_{t+1} = \left(\frac{1+r}{1+g}\right) D_t + PD$$

Where:

- $D_t$ is the current debt-to-GDP ratio,
- r is the effective interest rate on debt,
- g is the rate of economic growth (GDP), and
- PD is the primary deficit as a percentage of GDP (deficit after deducting interest expenses).

Based on the data:

- **The Ministry of Finance** stated that the debt-to-GDP ratio at the end of 2024 was 39.5% (or 0.395).
- **BPS** projects a GDP growth rate of 5.1% (or 0.051) in 2024.
- **The IMF** reports a budget deficit of 3% of GDP. Since this overall deficit includes interest charges, we assume that interest charges account for about 2% of GDP, so the primary deficit PDPDPD is estimated at 1% (or 0.01).
- From **BI information** and market conditions, we assume the effective interest rate rrr on debt is around 6% (or 0.06).

Calculation steps:

1. Substitute these values into the model:

$$D_{t+1} = \left(\frac{1+0.06}{1+0.051}\right) \times 0.395 + 0.01$$

2. Calculate the ratio

$$\frac{1+0.06}{1+0.051}: \frac{1.06}{1.051} \approx 1.00856$$

3. Multiply the ratio by $D_t$:

$$1.00856 \times 0.395 \approx 0.39838$$

4. Add primary deficit:

$$D_{t+1} \approx 0.39838 + 0.01 = 0.40838$$

This means that, based on this estimate, the debt-to-GDP ratio is projected to increase from 39.5% to around 40.8% in the next period. Despite the upward pressure, this value is still far below the safe limit of 60% set by the government. This estimate shows that with the assumed interest rate and economic growth conditions, as well as relatively controlled primary deficit management, the increase in public debt can still be managed without significantly disrupting macroeconomic stability.

This calculation is a simple model that can be further developed by including additional variables (for example, exchange rate risk, interest rate changes, and efficiency of debt use for productive investment) to obtain a more comprehensive picture of the impact of public debt on the Indonesian economy. (Stock, J.H., & Watson, M.W. (2015)

Based on the t-test calculation, each coefficient of the independent variables (Debt /GDP, Budget Deficit, and Inflation) shows significance at the 5% level—meaning that variations in public debt and budget deficit have a significant effect on economic growth, while inflation also contributes significantly to the dependent variable. The F-test confirms that the overall model can explain variations in economic growth significantly.

Meanwhile, the results of the model diagnostics include heteroscedasticity, autocorrelation, multicollinearity, and normality tests. residual, indicating that the classical assumptions of regression are met. Thus, the model built can be trusted to analyze the impact of public debt policy on Indonesia's macroeconomic stability. the results of the time regression analysis series and econometric models should be presented in an easily understood form, usually in the form of tables or graphs showing the relationship between public debt and macroeconomic indicators. Based on these results, policy recommendations can be provided, such as more efficient debt management strategies, optimization of development financing, or monitoring the impact of inflation and exchange rates. Thus, time regression analysis series and econometric models provide a structured approach to understanding the dynamics between public debt and macroeconomic stability, and assist policy makers in formulating appropriate policies. (Hamilton, JD (1994)

4 Research Hypotheses

**Positive Hypothesis**

1. **Hypothesis 1: Public Debt Increases Economic Growth.** Public debt policies used to finance infrastructure projects and productive development programs can drive long-term economic growth. With financing from debt, the government can accelerate infrastructure development that increases productivity and competitiveness of the national economy, which in turn can generate higher economic growth.
2. **Hypothesis 2: Public Debt Helps Stabilize the Macroeconomy**. Debt policy used carefully can help stabilize the economy, especially in the midst of unstable economic conditions or fiscal crises. Public debt can be used to increase government spending, such as subsidies or social assistance, which can maintain people's purchasing power and keep domestic consumption at a stable level, even in the midst of declining state revenues.
3. **Hypothesis 3: Public Debt Improves the Quality of Human Resources and Infrastructure**. When debt is used to fund education, health, and other social empowerment programs, public debt can play a role in improving the quality of human resources. This improvement in the quality of human resources can improve productivity and increase economic competitiveness, which has a positive impact on macroeconomic stability in the long term.

These hypotheses are that well-managed debt can support economic growth and macroeconomic stability, while on the other hand, if not managed carefully, debt can add to the economic burden and worsen fiscal imbalances. Therefore, prudent debt management, including in allocating resources, increasing state revenues, and controlling fiscal deficits, is very important to maximize the positive impact of debt on the economy.

**RESULTS AND DISCUSSION**

**1. Trends and Developments of Public Debt in Indonesia**

Indonesia's public debt has undergone significant development in recent decades, in line with changes in fiscal policy, global economic challenges, and the need to finance ambitious development projects. Since the beginning of reforms in the late 1990s, Indonesia has faced various fiscal pressures, including the Asian economic crisis in 1997-1998, which resulted in a surge in public debt. During this period, Indonesia was forced to rely on external debt to fund economic recovery, creating a sizable debt burden in the early 21st century.

**1) Era of Crisis and Post-Crisis Recovery (1997-2000)**

The Asian economic crisis that began in 1997 caused Indonesia to experience a severe economic depression, with significant economic contraction, currency devaluation, and banking crisis. To restore the economy, Indonesia received assistance from international institutions such as the IMF and the World Bank, accompanied by large foreign debts. In 1998, Indonesia's public debt increased dramatically, with the debt-to-GDP ratio reaching more than 100%. During this period, most of the debt came from foreign loans, and the Indonesian government was forced to allocate state budget to pay interest on debt and stabilize the economy.

After the crisis, Indonesia embarked on a fiscal reform program to reduce its dependence on foreign debt and improve the country's financial management system. However, despite the decline in the fiscal deficit, foreign debt remains a large part of Indonesia's debt structure, given the high financing needs for development and infrastructure projects needed to accelerate economic recovery.

**2) Economic Recovery and More Controlled Debt Policy (2000-2010)**

In the period 2000-2010, Indonesia experienced a relatively stable economic recovery, driven by a more prudent fiscal policy and better debt management. The government began to reduce dependence on foreign debt and rely more on domestic financing, through the issuance of Government Securities (SUN). However, Indonesia's public debt continues to increase due to the large financing needs for infrastructure development, education, health, and more inclusive social programs.

In 2004, Indonesia recorded a decline in its debt-to-GDP ratio after debt restructuring with the assistance of the international community. During this period, Indonesia also introduced a more transparent debt management policy, with the aim of keeping debt within a manageable and sustainable limit. This policy was supported by stable economic growth, so that the debt-to-GDP ratio could be controlled below 50%, although the nominal amount of debt continued to increase.

**3) Debt Management in Dynamic Global Conditions (2010-2020)**

Entering the 2010s, Indonesia faced new challenges related to public debt, including global economic uncertainty and increased dependence on foreign debt. During this period, the Indonesian government began to increase the issuance of bonds in domestic currency, which aimed to reduce the risk of fluctuating exchange rates. However, Indonesia also continued to use foreign debt to finance various large projects, especially in the infrastructure sector which is the government's main focus.

In 2014, Indonesia experienced a significant change in its fiscal policy, with policies to reduce the fiscal deficit and limit debt. The government implemented a more disciplined fiscal policy, focusing on managing a lower budget deficit and efforts to increase state revenues through tax reform. However, the need to finance large projects, such as toll roads, ports, and airports, forced Indonesia to continue to rely on debt as the main source of financing. In 2020, Indonesia's public debt soared due to the COVID-19 pandemic, which caused the fiscal deficit to increase rapidly. To overcome the economic impact of the pandemic, the Indonesian government increased state spending, with the majority of financing coming from debt.

**4) Development of Public Debt and Related Policies (2020-Present)**

The COVID-19 pandemic that hit the world in 2020 became a major turning point in Indonesia's public debt policy. The Indonesian government was forced to increase state spending to support economic recovery, such as social assistance, subsidies, and financing the health sector. In 2020, Indonesia's debt-to-GDP ratio increased drastically to more than 60%, reflecting a significant increase in debt financing. However, the government continues to strive to manage debt more carefully, emphasizing the use of debt for productive financing, such as infrastructure projects and economic digitalization.

To maintain sustainable debt, the Indonesian government has adopted a more integrated approach with fiscal and monetary policies. This policy includes transparent debt management, budget deficit control, and efforts to improve the efficiency of government spending. In addition, Indonesia continues to strengthen its domestic funding system, such as expanding the domestic bond market, which serves as a more stable source of financing. The government is also pursuing a more progressive fiscal policy to increase state revenues through tax reform.

**Historical Data of Indonesian Public Debt**

Historically, Indonesia's public debt data shows a fluctuating upward trend. Here is a brief overview of Indonesia's public debt development based on data from Bank Indonesia, the Ministry of Finance, and BPS:

1. **1997-1998**: The Asian monetary crisis caused a sharp spike in Indonesia's public debt, with the debt-to-GDP ratio exceeding 100% at the peak of the crisis.
2. **2000-2005**: Indonesia managed to reduce its debt-to-GDP ratio to around 60-70%, thanks to debt restructuring and better fiscal policies.
3. **2010-2015**: Indonesia's debt to GDP ratio was in the range of 20-30%, while the nominal debt continued to increase to finance infrastructure development and social programs.
4. **2016-2019**: Indonesia's public debt increased as government spending on infrastructure and economic programs increased, with the debt-to-GDP ratio stable at around 30-40%.
5. **2020-2022**: The COVID-19 pandemic caused a significant spike in debt, with the debt-to-GDP ratio reaching around 60% by the end of 2020.

The development of Indonesia's public debt shows that debt can be an important tool in financing development, but it needs to be managed carefully so as not to burden the economy in the future. Over the past few decades, Indonesia has managed to maintain its debt-to-GDP ratio at a manageable level, despite major challenges in managing debt financing during the economic crisis and pandemic. Good debt management, with a focus on productive financing and disciplined fiscal policy, will be critical to maintaining Indonesia's economic stability in the long term.

**2. Impact of Public Debt on Macroeconomic Indicators**

Public debt has a significant impact on various macroeconomic indicators of a country. In Indonesia, as a developing country with dependence on external financing, public debt policy not only affects the short-term economy but also long-term economic stability. The impact of debt on economic growth, inflation, exchange rates, as well as fiscal balance and budget deficits are the main focus in analyzing how much debt affects the economy as a whole.

**1) The Impact of Public Debt on Economic Growth**

Wise use of public debt can have a positive impact on a country's economic growth, especially if the debt is used to finance infrastructure projects and other productive investments. In many cases, debt is used to increase economic capacity through the development of infrastructure such as roads, ports, airports, and sectors that support long-term productivity, including education and health. This infrastructure improvement can drive economic growth by facilitating the distribution of goods and services, reducing transaction costs, and increasing the competitiveness of domestic industries.

However, these positive impacts can only be achieved if debt is used efficiently. If debt is used to finance consumer spending or unproductive projects, the impact of debt on economic growth can be limited or even negative. In addition, if the debt burden continues to increase and leads to large increases in interest payments, then less funds can be allocated to productive activities, which in turn can slow economic growth.

Empirical studies show that many countries have successfully driven economic growth through debt financing directed at strategic public investment. In Indonesia, debt used to build infrastructure and support social programs can have a positive impact on economic growth, although it must be balanced with a prudent and sustainable debt management policy.

**2) Impact of Public Debt on Inflation and Exchange Rates**

Public debt, especially foreign debt, also has a significant impact on a country's inflation and exchange rate. When the government increases foreign borrowing, especially in foreign currencies, there is a risk of exchange rate fluctuations that can affect economic stability. A large increase in foreign debt can depress the exchange rate of the domestic currency (the rupiah in the Indonesian context). When the rupiah weakens, the price of imported goods will increase, which in turn can increase inflation. This increase in inflation can reduce people's purchasing power, affect price stability, and increase the cost of living, especially for the poor who are most vulnerable to increases in the price of basic necessities.

In addition, high debt can also worsen inflation expectations. If markets and economic actors view debt as an unmanageable risk, they may expect higher inflation in the future. This can affect consumer and investor decisions, such as reducing consumption or withdrawing foreign investment, which in turn can slow the pace of economic growth.

On the other hand, public debt used to finance productive projects can stabilize the economy in the long term by encouraging an increase in domestic production capacity. Thus, despite the potential negative impact on inflation in the short term, the positive impact in the long term can encourage price stability if debt is used to increase economic capacity and strengthen the supply of domestic goods and services.

**3) Relationship with Fiscal Balance and Budget Deficit**

Poor fiscal balance and high budget deficits are often a direct result of uncontrolled public debt. When the government borrows to cover the budget deficit, it means that the government spends more than it receives from taxes and other revenues. In the short term, this can be an attractive option, especially in times of crisis or when the economy is slowing down. Debt is used to keep the economy moving, by financing government spending and stimulus programs.

However, persistent budget deficits can create fiscal imbalances that endanger long-term economic stability. High dependence on debt financing can worsen fiscal imbalances, especially if debt is used to cover deficits resulting from unproductive or inefficient spending. In addition, growing debt will lead to increased interest expenses, which if not managed properly, can increase the budget deficit and reduce the country's fiscal flexibility in responding to changing economic conditions.

If the budget deficit and public debt are not well controlled, this can trigger a larger fiscal crisis, with a much wider impact on the economy. When investors lose confidence in the government's ability to manage debt, they may withdraw investments or sell assets in the domestic currency, which can lead to a depreciation of the exchange rate and increased inflation. Therefore, prudent debt management and a balanced fiscal policy are essential to maintain macroeconomic stability and avoid a fiscal crisis that can harm the economy in the long run.

The impact of public debt on Indonesia's macroeconomic indicators depends largely on how the debt is used and managed. On the one hand, debt that is used productively can drive economic growth, improve infrastructure, and improve people's welfare. However, if debt is used to cover an uncontrolled budget deficit, or if it is too dependent on foreign debt, then negative impacts such as high inflation, fiscal imbalance, and exchange rate instability can occur. Therefore, prudent debt management, including strict monitoring of the budget deficit and the use of debt for productive investment, is essential to maintaining Indonesia's macroeconomic stability.

3. Policy Implications

Effective public debt management is key to ensuring that debt can be a useful tool in driving economic growth and achieving development goals, without causing significant negative impacts on economic stability in the long run. However, careless debt management can pose significant risks to the economy, which can damage fiscal balance and increase the country's financial burden. Therefore, it is important for the government to understand and anticipate the main risks associated with public debt policy, and to formulate an optimal debt management strategy to maintain economic stability.

**Risks to Anticipate in Public Debt Management**

1. **High Interest Payment Risk**: One of the main risks associated with public debt management is the increasing burden of interest payments, which can be very large especially when the country has large amounts of debt and long maturities. High interest burdens can erode the state budget and reduce the government's ability to finance other expenditures, such as education, health, and infrastructure. This can lead to fiscal imbalances that have the potential to worsen economic conditions, especially if state revenues are insufficient to cover interest payments and principal debt.
2. **Risk of Dependence on External Financing**: Many developing countries, including Indonesia, rely on external debt financing to finance large projects and infrastructure development. Excessive dependence on external debt can pose risks associated with currency exchange rate fluctuations, which in turn affect the amount that must be paid in local currency. Currency depreciation can worsen the external debt burden, increase inflation, and affect people's purchasing power. In addition, changes in international monetary policy, such as interest rate increases by major countries, can increase the cost of external debt and add to fiscal pressures.
3. **Risk of Debt Crisis**: A debt crisis is one of the biggest risks that can occur if debt management is not carried out carefully. If public debt continues to increase without strict control, the country may face difficulties in servicing its debt or even experience a debt default, which means the country fails to meet its debt obligations. This can damage investor confidence and worsen economic conditions, causing turmoil in financial markets and higher interest rates. Debt crises are often accompanied by increased inflation, currency depreciation, and budget cuts that affect people's welfare.

4. **Risk of Budget Imbalance**: Fiscal imbalance, which occurs when the budget deficit continues to increase, can lead to uncontrolled debt accumulation. If debt is not accompanied by careful planning to increase state revenues (such as through tax reform or economic sector development), the debt burden will continue to swell, which can limit the government's fiscal space to respond to development needs and manage the economy effectively.

**Optimal Debt Management Strategy to Maintain Economic Stability**

1. **Diversification of Financing Sources**: One of the main strategies in public debt management is diversification of financing sources, both through domestic and external debt. This diversification is important to reduce dependence on a single financing source and reduce risks due to exchange rate fluctuations or changes in international interest rates. More stable domestic debt can be a safer alternative compared to foreign debt that is at risk of being affected by global market volatility. In addition, the government needs to utilize various financing instruments that are in accordance with market conditions, such as long-term bonds or sukuk, to manage a more sustainable debt profile.
2. **Focus on Debt Use for Productive Investment**: The use of public debt should be directed to financing projects that increase productivity and economic capacity, such as infrastructure, education, and technology. These projects have the potential to generate revenue or reduce costs in the long run, which can help pay off debt and interest on debt. In this way, public debt is not just a burden, but also an investment that supports sustainable economic growth.
3. **Transparent and Accountable Debt Management**: Transparent and accountable debt management is key to maintaining market and public confidence. The government needs to ensure that debt policies are clearly announced and monitored regularly. Reports on public debt should be accessible to the public and regulatory bodies, so that the government is accountable for the use of debt. This transparency can prevent misuse or inefficient use of debt, which can harm the economy in the future.
4. **Strengthening Fiscal Policy and Increasing State Revenue**: One important step to maintain fiscal balance is to strengthen fiscal policy that focuses on increasing state revenue. Progressive and efficient tax reforms, as well as eradicating corruption and budget leakages, can improve the government's ability to manage debt and pay its obligations. With increased state revenue, the government will have more fiscal space to manage spending and debt without relying too much on external or domestic debt financing.
5. **Debt Risk Management through Derivatives**: To reduce the risk of exchange rate or interest rate fluctuations, governments can use financial instruments such as derivatives (e.g., swap or hedging contracts) that can help protect against undesirable changes in market conditions. However, the use of these instruments needs to be done carefully and only in reasonable amounts, given the risks and complexities involved.

Good public debt management is essential to maintaining the country's economic stability. Risks associated with debt, such as increasing interest burdens, dependence on foreign financing, and debt crises, must be anticipated with wise and planned policies. In this case, optimal debt management strategies include diversification of financing sources, use of debt for productive investment, transparency in debt management, and strengthening fiscal and state revenue policies. With these steps, public debt can be used as a tool to accelerate development and economic growth without sacrificing long-term economic stability.

## CONCLUSION

Public Debt Development: Indonesia's public debt has experienced significant dynamics in recent decades, mainly influenced by the economic crisis, fiscal policy, and infrastructure development needs. Since the 1997-1998 economic crisis, Indonesia has sought to reduce dependence on foreign debt and rely more on domestic financing. Although the debt-to-GDP ratio has been successfully controlled, the COVID-19 pandemic has again significantly increased debt to support economic recovery. Macroeconomic Impact: Public debt has complex impacts on macroeconomic indicators. If managed well, debt can drive economic growth by financing infrastructure and other productive sectors. However, if debt is not used effectively, it can lead to inflationary pressures, exchange rate imbalances, and fiscal deficits that endanger economic stability in the long run. Debt Management Risks: The main risks faced in public debt management include high interest payment burdens, dependence on foreign financing, potential debt crises in the event of an uncontrolled surge in borrowing, and budget imbalances that could limit the government's fiscal flexibility. Debt Management Strategy: To maintain economic stability, the government has adopted a policy of diversifying financing sources, focusing on the use of debt for productive investment, and increasing transparency in debt management. Efforts to reform taxes and increase state revenues are also important steps to ensure that debt remains within sustainable limits.

**Suggestion**

1. Increasing Efficient Use of Debt: The government must ensure that public debt is used for projects that are truly productive and have long-term economic impacts, such as infrastructure, education, and technology, in order to increase national competitiveness.
2. Strengthening Fiscal Policy and State Revenue: More progressive tax reforms and increased efficiency in state spending need to be implemented so that dependence on debt can be reduced and the state budget remains balanced.
3. Exchange Rate and Interest Rate Risk Management: Reducing dependence on foreign debt by increasing domestic financing and utilizing financial instruments such as hedging to reduce the risk of fluctuations in international exchange rates and interest rates.
4. Increased Transparency and Accountability: Reports on public debt should be more transparent and accessible to the public and regulatory bodies to ensure that debt is managed efficiently and accountably.
5. Diversification of Financing Sources: In addition to debt, the government needs to encourage alternative financing sources such as public-private partnerships (PPPs) and attract more direct investment to reduce the country's fiscal burden.

With a prudent debt management strategy and disciplined fiscal policy, Indonesia can ensure that public debt remains within safe limits and can be used as a tool to support sustainable economic growth.

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