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ANALYSIS OF THE EFFECT OF FISCAL AND MONETARY POLICY ON ECONOMIC GROWTH IN INDONESIA PRE AND POST COVID-19

WARTOYO

Sharia Economics Study Program FEBI IAIN Syekh Nurjati Cirebon

wartoyo@syekhnurjati.ac.id

NUR HAIDA

Prodi Ekonomi Syariah UI Bunga Bangsa Cirebon

Nurhaida26684@gmail.com

ASNI KOMALASARI

Sharia Economics Study Program FEBI IAIN Syekh Nurjati Cirebon

asnikomalasari6@gmail.com

ALYA FAUZI ZAIZAFUN

Sharia Economics Study Program FEBI IAIN Syekh Nurjati Cirebon

alyafauzizaizufun9@gmail.com

Abstract

This study aims to determine the influence of fiscal policy and monetary policy on economic growth in Indonesia in 2007-2022. The independent variables used in this study are categorized into two camps, namely the fiscal policy camp consisting of tax revenue (X1) and government expenditure (X2). Meanwhile, monetary policy consists of interest rates (X3) and money supply (X4). This research uses data series obtained from the Central Statistics Agency (BPS) and Bank Indonesia (BI). In this study using quantitative methods and using multiple linear regression analysis. The results showed that the variable of tax revenue (X1) has a positive and significant effect on economic growth, government spending (X2) has a negative and significant effect on economic growth in Indonesia and interest rates (X3) have a negative and insignificant effect on economic growth in Indonesia, while the money supply (M2) has a positive and significant effect on economic growth.

Keywords: *Fiscal Policy, Monetary Policy and Economic Growth.*

Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh kebijakan fiskal dan kebijakan moneter terhadap pertumbuhan ekonomi Indonesia tahun 2007-2022. Variabel independen yang

digunakan dalam penelitian ini dikategorikan menjadi dua kubu, yaitu kubu kebijakan fiskal yang terdiri dari penerimaan pajak (X1) dan belanja pemerintah (X2). Sementara itu, kebijakan moneter terdiri dari suku bunga (X3) dan jumlah uang beredar (X4). Penelitian ini menggunakan seri data yang diperoleh dari Badan Pusat Statistik (BPS) dan Bank Indonesia (BI). Dalam penelitian ini menggunakan metode kuantitatif dan menggunakan analisis regresi linier berganda. Hasil penelitian menunjukkan bahwa variabel penerimaan pajak (X1) berpengaruh positif dan signifikan terhadap pertumbuhan ekonomi, belanja pemerintah (X2) berpengaruh negatif dan signifikan terhadap pertumbuhan ekonomi di Indonesia dan suku bunga (X3) berpengaruh negatif dan tidak signifikan terhadap pertumbuhan ekonomi di Indonesia, sedangkan jumlah uang beredar (M2) berpengaruh positif dan signifikan terhadap pertumbuhan ekonomi.

Kata kunci: *Kebijakan Fiskal, Kebijakan Moneter dan Pertumbuhan Ekonomi.*

INTRODUCTION

The state is the highest authority in formulating a policy. This government policy will always intersect directly and affect the climate of community activity in determining policies in the economic sector (Hardi Fardiansyah, 2022). There are three aspects of long-term problems that developing countries have in economic growth, namely: (1) there is a difference between the potential growth rate achieved and the actual growth rate achieved; (2) must increase growth potential; (3) regarding the constancy of economic growth that will prevail from one year to another (Azimi, 2021).

Economic growth is the growth of real output of an economy over the course of the year. This economic growth can be measured by an increase in real Gross National Product (GNP) or Gross Domestic Product (GDP) over time or also an increase in per capita income over time (Falianty, 2019). Economic growth has always been a central issue in discussing development issues (Akhyar, 2019).

One of the variables in the benchmark of a country's progress is economic growth. If a country's economy is stable, it can be said that the country is developed, but if the economic situation in a country is down, it can be said that it is not a developed country. Economic development basically aims to improve the welfare of the community at large in a country. In order to achieve a high level of public welfare, it is necessary to have economic growth and equal distribution of income. So it is inevitable that economic growth will be one of the main indicators of success in economic development (Aristina, 2020).

Indonesia is one of the developing countries. The phenomenon of economic crisis that has occurred in Indonesia has had the effect of deteriorating domestic economy. This is characterized by the condition of the domestic economic growth rate which experienced

shocks to a negative point. In the indicator of development success can be measured from the rate of economic growth, namely the size of the Gross Domestic Product (GDP) obtained, stability in the inflation rate achieved and the level of unemployment controlled (Astuti, 2019). The following is Indonesia's economic growth in 2007-2022, as follows:

Table 1
Economic Growth, Tax Revenue, Government Spending,
Indonesia Interest Rate and Money Supply (M2) 2007-2022

Year	Economic Growth (%)	Tax Revenue (Billion)	Government Expenditure (Billion)	Interest Rate (%)	Money Supply (M2) (Billion)
2007	6,3	490.988	763.571	8,04	1.649.662,00
2008	6,0	658.701	854.660	9,47	1.895.839,00
2009	4,6	619.922,00	1.037.067	6,50	2.141.383,70
2010	6,2	723.307,00	1.042.117	6,50	2.471.205,79
2011	6,5	873.874,00	1.294.999	6,00	2.877.219,57
2012	6,23	980.518,10	1.491.410	5,77	5.619.576,20
2013	5,78	1.077.306,70	1.650.564	6,48	3.461.989,97
2014	5,02	1.146.865,80	1.777.183	7,54	3.868.128,99
2015	4,79	1.240.418,86	1.806.515	7,52	4.357.690,92
2016	5,02	1.284.970,10	1.864.275	6,00	4.698.476,66
2017	5,07	1.343.529,80	2.007.352	4,56	5.163.213,08
2018	5,17	1.518.789,80	2.213.118	5,10	5.518.336,63
2019	5,02	1.546.141,90	2.309.287	5,62	5.902.205,83
2020	-2,07	1.285.136,32	2.595.481	4,25	6.520.382,73
2021	3,69	1.547.841,10	2.697.237	3,25	7.182.313,29
2022	5,31	1.924.937,50	2.714.156	4,00	7.963.215,96

Source: bps.go.id

Based on data obtained from the Central Bureau of Statistics and Bank Indonesia, table 1.1 shows that Indonesia's economic growth is fluctuating from 2007-2022. Indonesia's economic growth for 5 years (2007-2011) was able to grow by an average of 5.9% greater than the previous year. In 2007 Indonesia's growth grew by 6.3%. While in 2008 due to the global crisis with a growth of 6.0%. This propagation continued until in 2009 as much as the Indonesian economy only grew by 4.6%. Furthermore, in 2011 the national economy experienced growth again by increasing to 6.5% although this was still overshadowed by the impact of the global crisis in Europe.

As for a very significant decline in 2020, this could happen because of the ongoing economic shock. In 2020, the Covid-19 period had an impact on various economic sectors,

so that GDP growth plummeted in all countries in the world, including Indonesia. In addition, within 16 years the state budget experienced a deficit (expenditure greater than revenue). Therefore, policies are needed that can reduce the sluggishness of economic activity in Indonesia, be it fiscal policy or monetary policy (Wartoyo, 2022).

In table 1.1, we can see the development of interest rates that occurred in Indonesia in 2007-2022. In 2007, monetary policy implemented by Bank Indonesia was very loose by gradually lowering the BI rate. The average interest rate in 2007 was 8.04 percent. In 2008, due to an increase in the inflation rate, BI raised the BI rate to 9.47. As for 2009 due to the decline in the inflation rate, the BI rate was set at 6.50. This decline continued until 2010 with a BI rate of 6.50. This causes fluctuations in interest rates applied by BI. Then for the Money Supply (M2) Every year there is an increase in the amount of circulation.

In managing the country's economy, the government can implement its policies, namely through fiscal policy and monetary policy. Although they have different functions, the two policies can be used simultaneously to achieve price stability and balance of payments. Economic policy is a comprehensive economic control measure carried out by the government. One of the policies that must be issued by the government is monetary economic policy (Fardiansyah, 2022).

Monetary policy is a policy made by the government or monetary authority by using changes in the money supply and interest rates to affect the level of aggregate demand and also reduce instability in the economy (Winarto H. P., 2021). One of the important things in the discussion of the economy is from a monetary point of view, Because economic growth cannot be analyzed if monetary is not involved.

Fiscal policy poses strengthening taxation and government spending as a way to suppress fluctuations in the economic cycle and maintain economic growth with high employment to avoid high and unstable inflation (Akhyar, 2019). In fiscal policy, the main instruments used are government revenues and expenditures. This has been determined in the State Budget (APBN). The scope of government revenue consists of state revenue from taxation and Non-Tax State Revenue (PNBP).

This article aims to: (1) Determine the effect of tax revenue, government expenditure, interest rates and money supply (M2) on economic growth in Indonesia in 2007-2022; (2) Knowing the effect of tax revenue on economic growth in Indonesia in 2007-2022; (3)

Knowing the effect of government spending on economic growth in Indonesia in 2007-2022; (4) Knowing the effect of interest rates on economic growth in Indonesia in 2007-2022; (5) Knowing the effect of money supply (M2) on economic growth in Indonesia in 2007-2022.

Economic growth is the fiscal development of the production of goods and services that prevail in a country, so it can be concluded that economic growth is a process of increasing a country's national income in a certain period (Sukirno, 2007). Economic growth can also be defined as an increase in the ability of an economy to produce goods and services that are quantitative, usually measured through GDP or per capita output (Wartoyo, 2024).

Economic growth as a process of increasing per capita output in the long run and is an important problem for every country. Prosperity can be reflected in the long run seen from increasing per capita output and providing ways how consumption of goods and services will be followed by high purchasing power. Indicators of economic growth are national income and per capita income (Nanga, 2005).

Fiscal Policy

Fiscal policy is one of the macro policies whose main authority is held by the government and represented by the Ministry of Finance. Generally, fiscal policy discusses government choices in an effort to determine the amount of expenditure or expenditure and the number of explicit opinions that can be used to influence the economy. Government revenues and expenditures are the main instruments in physical policy (Nangarumba, 2016).

The existence of government spending as an instrument of fiscal policy has an influence on economic growth in Indonesia. The existence of government spending is expected to encourage economic activity and increase economic growth. The results of government spending can affect the economy through increased investment and infrastructure development. Government spending carried out can be a means of supporting economic growth, if the government is able to provide public goods that are in accordance with expectations as good production inputs (Aristina, 2020).

Fiscal policy implemented in Indonesia can be seen from the State Budget. This can also regulate inflation that occurs so that there is no monetary crisis, can build an economy with significant and equitable growth results. Economic growth can affect fiscal policy manifested from the State Budget. If the state budget is used in accordance with the right

time and place, inflation will be well controlled so that it can have an impact on significant and equitable growth in the macro scope, namely the country (Isnaini, 2017).

1) State Tax Revenue

Taxes are a very important component in terms of revenue of a country and contribute greatly in the financing of development to be carried out by the government. Taxes are also a major resource of public revenue and are used as a fulcrum in determining economic policy. Therefore, income tax shows to have a positive and significant influence on economic growth in Indonesia (Sihaloho, 2020).

2) Government Expenditure

Government expenditure is the government's action in regulating the course of the economy by determining the amount of government revenue and expenditure each year which has been reflected in the APBN document for the national and APBN for regions or regions. When the government has set a policy in buying goods and services, it will reflect the government expenditure that must be spent in carrying out the policy. Government spending is positively related to economic growth. If government spending increases, it will cause economic growth to also increase (Mahzalena, 2019).

Monetary Policy

Monetary policy is expansionary and contractionary. First, contractionary monetary policy is carried out to overcome the money supply in times of inflation. Second, expansionary monetary policy is carried out by maintaining people's purchasing power to increase when the economy experiences a recession or depression. In controlling the amount of money circulating in society, monetary financial authorities use interest rate policy. The greater the amount of money circulating in the community, the more attractive investment will be compared to saving money (savings) (Ambarwati, 2021).

Monetary policy is expansionary and contractionary. First, contractionary monetary policy is carried out to overcome the money supply in times of inflation. Second, expansionary monetary policy is carried out by maintaining people's purchasing power to increase when the economy experiences a recession or depression. Indicators of monetary policy are interest rates and the money supply that serve as intermediate targets (Concerned, 2019).

1) Bank Indonesia interest rate (rate)

Bank Indonesia (BI) Rate is a reference interest rate that presents monetary policy set by Bank Indonesia which has been announced to the public (Indiarti, 2018). The theory of interest rates, reads "If interest rates are high, then the amount of investment will also decrease which means economic growth also falls. Conversely, if interest rates are low, it will encourage a lot of investment. Thus, it can increase economic growth (Asnawi, 2018).

The interest rate theory is in line with research conducted by Asnawi and Hafizatul Fitria (2018), stating that interest rates have a positive effect on economic growth. This suggests that low interest rates can make investment increase and will affect economic growth which will increase as well.

2) Money Supply

One monetary policy that uses the money supply as its target has a positive impact in the form of stable prices. Based on the theory that if the amount of money in circulation is too much, then Bank Indonesia must make policies to reduce interest rates, so as to encourage investors to invest. Therefore, the output produced will also increase and trigger economic growth (Mutia, 2020).

This theory is proven by research conducted by Mutia and Indrawati (2020) stating that there is a positive influence on the money supply on Indonesia's Gross Domestic Product (GDP).

METHODS

This study used descriptive research with a quantitative approach. Quantitative analysis is an analysis that uses numbers along with statistical calculations. Quantitative data analysis was performed to determine the effect of the independent variable on the dependent variable using multiple linear regression analysis. The formula of multiple linear regression analysis is as follows (Sugiyono, 2011):

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_2 X_2 + \beta_3 X_3 + e$$

Information:

Y = Economic Growth

a = Constant

b = Multiple Regression Coefficient

X1 = Tax Revenue

X2 = Government Expenditure

X3 = Interest Rate

X4 = Money Supply

e = Error Term

There are five variables in this study, namely economic growth as a dependent variable. As for independent variables, there are two groups, namely the monetary policy group; Bank Indonesia interest rate and money supply. And on the fiscal policy group; tax revenue and government expenditure. The data used in this study are secondary data obtained from the Central Bureau of Statistics (BPS), the website of Bank Indonesia (BI) and the Fiscal Agency of the Ministry of Finance. The secondary data is in the form of monthly data for 2007-2022.

RESULTS AND DISCUSSION

The data in this study was collected using documentation methods obtained from the Central Statistics Agency (BPS) in the form of time series. The data is then subjected to due diligence as will be explained in more detail below.

1. Classical Assumption Test

1) Normality Test

The results of the normality test using Kolmogorov Smirnov's formula show a significance value of 0.032 where the value is greater than 0.05. As well as the skewness ratio and kurtosis ratio are between -2 to + 2, so it can be concluded that the data distribution is normal.

2) Multikolinearity Test

Based on the results of the multicollinearity test which shows the VIF value of tax revenue variables of 1,365, government expenditures of 1,375, interest rates (rates) of 4,122 and JUB variables of 4,101. The correlation coefficient between independent variables states that there is no multicollinearity in each independent variable, this is indicated by a tolerance value of more than 0.1 and a VIF value of no more than 10.

3) Heteroscedasticity Test

The results of the heteroscedasticity test show that there is no statistically significant independent variable that affects the absolute value of the residual

dependent variable (Abresid). This can be seen from the probability of significance of each independent variable all showing greater than $\alpha = 0.05$. So it can be concluded that this regression does not contain any heteroscedasticity problems.

4) Autocorrelation Test

Based on the SPSS output, it is known that the Asymp.Sig (2-tailed) value is $0.796 > 0.05$. So there are no symptoms of autocorrelation. Thus, the autocorrelation problem cannot be solved with Durbin Watson and can be overcome through run tests, so that linear regression analysis can continue.

2. Multiple Linear Regression Analysis

To be able to find out the results of the study seen from the output of multiple linear regression. Here are the results:

1. Coefficient of Determination (R^2)

The effect of variable tax revenue, government spending, interest rates and money supply on economic growth in Indonesia is seen from the values in R^2 the model summary table.

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.937a	.878	.834	.45618

a. Predictors: (Constant), Money Supply (M2), Interest Rate (Rate), Tax Revenue, Government Expenditure

From the test results, a value of R^2 0.878 was obtained, which means the magnitude of the influence of tax revenue variables, government expenditures, interest rates and money supply on the economy in Indonesia, which is 87.8%, while the rest is influenced by other variables. So it is known that the value of the correlation coefficient (R) is $\sqrt{0.878} = 0.937$, meaning that the relationship between tax revenue, government spending, interest rates and money supply on economic growth in Indonesia is very positive because the correlation value of 0.937 is close to positive 1.

2. F-Test

Test F was conducted to determine how much influence the variables of tax revenue, government spending, interest rates and money supply simultaneously (together) on economic growth in Indonesia with a confidence level of 95% ($\alpha =$

5%). Hypothesis testing with the F test, which is done by comparing the F-count with the F-table.

ANOVAa

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.473	4	4.118	19.790	.000b
	Residuals	2.289	11	.208		
	Total	18.762	15			

a. Dependent Variable: Economic growth

b. Predictors: (Constant), Money Supply (M2), Interest Rate (Rate), Tax Revenue, Government Expenditure

From the test results above shows that the variables of tax revenue, government spending, interest rates and money supply have an F-count of 19,790 with a probability much smaller than $\alpha = 0.05$, then all independent variables included in this study affect Indonesia's economic growth.

3. T-Test

T-test is a testing method to determine how the influence or relationship of variables partially (one-to-one), namely between variable X and variable Y, where if the value of research and data processing is $T_{\text{calculate}} > T_{\text{table}}$, then the alternative hypothesis (H_a) is accepted at the level of significance or $\alpha = 5\%$. Meanwhile, if $T_{\text{calculate}} < T_{\text{table}}$, the null hypothesis (H_0) is rejected with a level of significance or $\alpha = 0.05$.

Coefficientsa

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.181	1.295		6.319	.000
Tax Revenue	6.203E-6	.000	2.210	6.310	.000
Government Expenditure	-4.196E-6	.000	-2.416	-5.296	.000
Interest Rate	-.255	.134	-.361	-1.894	.085
Money Supply (M2)	.576	.105	.694	5.461	.001

a. Dependent Variable: Economic growth

Based on the coefficient table, it is known that the value of $T_{\text{calculate } X_1} = 6.310$ with a probability of 0.000, then the regression coefficient X_1 is significant or affects the variable Y . The value of $T_{\text{calculate } X_2} = -5.296$ with a probability of 0.000, then the regression coefficient X_2 is significant or negatively affects the variable Y . Calculate $X_3 = -1.894$ with a probability of 0.085, then the regression coefficient X_3 is not significant or has no effect on the variable Y . Calculate $X_4 = 5.461$ with a probability of 0.001 then the regression coefficient X_4 is significant or influential to the variable Y . With the regression equation:

$$Y = 8.181 + 6.203 X_1 - 4.196 X_2 - 0.255 X_3 - 3.031 X_4$$

From the formula above, it can be described as follows:

- 1) A constant value of 8.181 indicates that all independent variables (variables of tax revenue, government spending, interest rates and money supply) are considered constant (fixed), hence the average variable of Indonesia's economic growth is 8.181.
- 2) The variable coefficient of tax revenue is 6.203E-6, meaning that if tax revenue increases by one unit, economic growth will increase by 6.203E-6.
- 3) The variable coefficient of government spending is -4.196E-6, meaning that if government spending increases by one unit, economic growth will decrease by -4.196E-6.
- 4) The variable coefficient of interest rate (rate) is -255, meaning that if the interest rate (rate) increases by one unit, economic growth will decrease by -255.
- 5) The variable coefficient of money supply is 0.576, meaning that if the variable money supply increases by one unit, economic growth will increase by 0.576.

Based on the multiple liner regression test described above, the following is a discussion of the results of the hypothesis test: The results of the study explain that the variable of tax revenue has a significance value of $0.000 < 0.05$ which means that the variable of tax revenue has a significant effect on economic growth in Indonesia with a positive influence. This result is in accordance with the

hypothesis where the hypothesis states that tax revenue has an effect on economic growth.

The results of the study explain that the variable government expenditure has a significance value of $0.000 < 0.05$ which means that the variable government expenditure has a significant effect on economic growth in Indonesia with a negative influence. From the results of the analysis, it is stated that it is not in accordance with the hypothesis that explains that government spending affects economic growth. So, it can be concluded that government spending has a negative influence on economic growth in Indonesia because it is caused by negative economic growth. As happened in 2009 with economic growth of 4.6% which decreased dramatically from the previous year due to the global monetary crisis and in 2020 economic growth plummeted to -2.07% due to the Covid-19 pandemic.

The results of research that have been conducted explain that variable interest rates have no effect on economic growth in Indonesia. This is evidenced by a partial test (Test T), where the variable probability of interest rates is $0.085 > 0.05$. Because the greater interest rates will not always make economic growth in a country will always be fast and also does not always have a direct impact on inflation. This is in line with the hypothesis that states that the M2 money supply affects economic growth. The results of the study explain that the variable Money Supply has a significance value of $0.001 < 0.05$ which means that the variable money supply has a significant effect on economic growth in Indonesia with a positive influence. This is in line with the hypothesis that states that the M2 money supply affects economic growth, because if the money supply is excessive, BI will make policies to lower interest rates so that it will encourage people to invest. So the output produced from this can also increase and trigger economic growth. Based on the ANOVA test or F-test, the F-count value is 19,790 with a probability much smaller than $\alpha = 0.05$. So it can be interpreted that the free variables of Tax Revenue, Government Expenditure, Interest Rate and Money Supply in this study affect Indonesia's economic growth.

The government permanently improved the assessment of fiscal and monetary policies' coordination efficiency. Inflation is one of the essential

investigated policies' interaction indicators; price stability is a measuring criterion for the regulation's efficiency. Regarding the partly fiscal nature of the inflation dynamics, it is impossible to connect the full responsibility for price stability with the central bank's actions. The public authorities' intentions to accelerate economic growth and stimulate aggregated demand through fiscal tools are reflected in the governmental monetary policy. In emerging market economies, fiscal policy has a crucial impact on inflation. The budget expenditures' regulation intensifies inflation; that fact is coherent with the increased aggregate demand. On the other hand, the tax policy's impact on the consumer price index is not so distinct: an increase in the tax burden on consumption accelerates inflation; the prices may rise if income taxes increase. Hence, both fiscal and monetary measures should reduce inflation's volatility to the optimal values, considering the national economic model (Chugunov et al, 2021).

Governments and central banks have responded to the pandemic and the ensuing economic crisis using both fiscal and monetary tools on a scale that the world has not witnessed before. These policies have been advocated by such global economics institutions as the International Monetary Fund (IMF). The fiscal measures announced as of September 11, 2020, are estimated at \$11.7 trillion globally, or close to 12 percent of global GDP (Sahara et al., 2022). Half of these actions cover additional spending or lost revenue, such as temporary tax cuts, and the other half cover liquidity support, such as loans, collateral, and public sector equity injections.

The amount and composition of fiscal support is very different in each country, which indicates a portion of the country's fiscal resources. Developed economies and large emerging markets account for the bulk of the global fiscal response for three reasons. First, they were hit earlier and harder by the health crisis. Second, their central banks are able to provide massive monetary stimulus and buy government or corporate securities while maintaining credibility to deliver low inflation. Third, their treasuries were able to finance larger deficits at low interest rates. The fiscal response in low-income developing countries, then hit by a health crisis, is largely budgetary and smaller due to tighter financing constraints.

CONCLUSION

This paper analyzes the determinants of fiscal and monetary policies during the Covid-19 crisis. Based on the results of the research and discussion that has been carried out, the following conclusions can be drawn: Based on data analysis, it is stated that simultaneously (together) the variables of Tax Revenue (X1), Government Expenditure (X2), Interest Rate (X3) and Money Supply (X4) have a positive and significant effect on Indonesia's economic growth in 2007-2022. Based on regression analysis, it is stated that partially the variable of Tax Revenue (X1) has a positive and significant effect on Indonesia's economic growth in 2007-2022. In the other side, the result showed partially the variable Government Expenditure (X2) has a negative and significant effect on Indonesia's economic growth in 2007-2022. Based on data analysis, it is stated that partially the variable Interest Rate (X3) has no effect on the variable of Indonesia's economic growth in 2007-2022. Based on data analysis, it is stated that partially the variable Money Supply (X4) has a positive and significant effect on Indonesia's economic growth in 2007-2022.

SUGGESTION

Based on the results of the study, the suggestions given are as follows: Bank Indonesia is expected to be more cautious when issuing policy in terms of raising interest rates. This is useful to fulfill the main objective of Bank Indonesia, namely maintaining a stable rupiah value in order to stimulate economic growth. Not just to attract foreign direct capital investment to Indonesia. As for other researchers who want to research economic growth in Indonesia, it would be nice to add other variables to study because there are quite a lot of variables that affect economic growth in Indonesia.

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