The Influence of Fiscal Policy, Monetary Policy and International Trade on Economic Growth in Indonesia (Literature Reviews)

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Abstract: The Literature Review article on the Influence of Fiscal Policy, Monetary Policy and International Trade on Economic Growth in Indonesia is a scientific article that aims to build a research hypothesis on the influence of variables to be used in further research, within the scope of public finance science. The way of writing this Literature Review article is the library research method, which is sourced from online media such as Google Scholar, Mendeley and other academic online media. The outcomes of this literature review study are: 1) Fiscal Policy influences Economic Growth in Indonesia; 2) Monetary Policy affects Economic Growth in Indonesia; and 3) International Trade has an effect on Economic Growth in Indonesia.

Keyword: Economic Growth, Fiscal Policy, Monetary Policy, International Trade

INTRODUCTION

Economic growth is a vital goal for policymakers in every country because it is strongly tied to a country's overall development and well-being. In the instance of Indonesia, a fast-rising Southeast Asian country, the government has been actively researching several elements that can contribute to sustainable and robust economic growth. Among these aspects, fiscal policy, monetary policy, and foreign commerce are commonly regarded as significant drivers of economic advancement. This literature study attempts to examine the impact of fiscal policy, monetary policy, and foreign trade on Indonesian economic growth, providing significant insights into the interplay of these factors and their consequences for the country's economic trajectory.

This review will look at a variety of scholarly publications, research papers, and pertinent literature that analyze the impact of fiscal policy, monetary policy, and foreign trade on Indonesian economic growth. This review aims to identify key findings, trends, and gaps in the literature by synthesizing and critically analyzing existing studies, providing a comprehensive understanding of the interrelationships between fiscal policy, monetary policy, international trade, and economic growth in the Indonesian context. The findings of this assessment will be
useful to policymakers, economists, and academics aiming to achieve sustainable and inclusive economic growth in Indonesia.

Based on the background, it is possible to formulate the issues that will be covered in order to create a hypothesis for additional investigation:
1) Does Fiscal Policy affect Economic Growth in Indonesia?
2) Does Monetary Policy affect Economic Growth in Indonesia?
3) Does International Trade affect Economic Growth in Indonesia?

THEORETICAL STUDY

Economic Growth

Economic growth is the increase in the value of a country’s gross domestic product (GDP) over a specific period of time. (Samuelson & Nordhaus, 2010). The dimensions or indications of economic growth can be quantified using gross domestic product (GDP) per capita, that is, the value of all final products and services produced in a country in a year, divided by the number of its inhabitants. GDP per capita is used as an indicator of a country’s affluence and as a measure in evaluating economic advancement between countries. (Samuelson & Nordhaus, 2010).

Economic growth is a change that occurs in the levels of output, income, and expenditure in a sustainable and permanent manner. (Mankiw, 2014). The dimension or indication of economic growth can be quantified using the rate of increase of real GDP, that is, GDP growth after the influence of inflation is decreased. Real GDP growth rate is used as an indicator of a country’s economic success over time. (Mankiw, 2014).

Economic growth is an increase in a country’s ability to produce goods and services over a certain period of time. (Dornbusch, Fischer, & Startz, 2004). The dimension or indicator of economic growth can be measured using gross national income (GNI) per capita, that is, the total income received by a citizen of a country in a year, including that earned abroad, divided by the number of its population. GDP per capita is also used as an indicator of a country’s prosperity. (Dornbusch, Fischer, dan Startz, 2004).

This economic growth has been studied by many previous researchers including (Acemoglu & Robinson, 2012), (Barro, 1991), and (Easterly, 2001).

Fiscal Policy

Fiscal Policy is the government’s endeavor to manage government spending and income with the purpose of creating economic balance and stable economic growth (Saliba et al., 2017). The Fiscal Policy dimension or indicator is the Revenue dimension: it comprises taxes, government spending and public debt. Expenditure dimension: covers public spending, subsidies, and transfers. Allocation dimension: encompasses expenditure policies relating to infrastructure development, health, and education. Distribution dimension: encompasses policies relating to economic equality and social welfare (Saliba et al., 2017).

Fiscal Policy is a policy carried out by the government to influence the economy through state spending and income (Kuncoro & Sebayang, 2013). Fiscal Policy aspects or indicators include taxes and other revenues, public expenditure and transfers, and government debt and money creation (Kuncoro & Sebayang, 2013).

Fiscal Policy is a policy carried out by the government connected to changes in spending and taxation, with the purpose of managing the level of output and inflation in the economy (Mankiw, 2014). Fiscal Policy aspects or indicators include government spending policies that effect household consumption and investment, as well as budget deficits and unemployment. (Mankiw, 2014).
This fiscal policy has been extensively researched by previous researchers including (Sari, 2017), (Harahap et al., 2020) and (Widodo, 2020).

**Monetary Policy**

Monetary policy is an economic policy carried out by the central bank to govern the supply of money, interest rates and credit conditions in a country (Mishkin, 2017). Monetary Policy aspects or indicators include interest rates, inflation rates, currency rates, monetary aggregates, and asset prices. Interest rates are the important indicator since they can affect total economic activity. In addition, the inflation rate is also a significant indicator because inflation that is too high or too low can have a detrimental influence on the economy (Mishkin, 2017).

Monetary policy is the method central banks manage money supply and interest rates to achieve certain economic goals, such as keeping inflation low and steady (Romer & Romer, 2013). The aspects or indicators of Monetary Policy are the federal interest rate, discount rate, dollar exchange rate, and monetary aggregates. The major indicator tracked by the central bank is the federal interest rate which is the principal aim of US monetary policy (Romer & Romer, 2013).

Monetary policy is a strategy that focuses on regulating aggregate demand and price stability through controlling interest rates and regulating aggregate supply in financial markets (Hill, Griffiths, & Lim, 2018). Monetary policy dimensions or indicators include interest rates, monetary aggregates, and exchange rates. The interest rate is the most frequently utilized indicator since interest rates can affect consumer spending and investment. (Hill, Griffiths, & Lim, 2018).

Monetary policy has been studied by many previous researchers including (Bernanke, 2005), (Mishkin, 2007), and (Romer & Romer, 2013).

**International Trade**

International trade is the exchange of products and services between two or more countries (Feenstra & Hanson, 2005). Dimensions or indicators of international trade activity can be measured using the value of exports and imports, trade balance, trade deficit or surplus, trade volume, trade growth rate, trade share in GDP (Feenstra & Hanson, 2005).

International trade is the flow of goods and services between countries, as well as the movement of capital and people (Krugman, 1995). Dimensions or indicators of international trade activity can be measured by the number of free trade agreements, the level of foreign direct investment, the share of multinational companies in the global economy (Krugman, 1995).

International trade is the integration of the national economy through the exchange of goods, services, capital and labor (Sachs & Warner, 1995). Dimensions or indicators of international trade activity can be measured using the level of economic integration between countries (Sachs & Warner, 1995).

This international trade has been studied by many previous researchers including (Frankel & Romer, 1999), (Dollar & Kraay, 2004), and (Cabalu & Alfonso, 2007).

**RESEARCH METHOD**

The method of authoring this Literature Review article is the Qualitative Descriptive approach and Library Research, drawn from the Google Scholar online program, Mendeley and other online academic applications.

In qualitative research, literature review must be used consistently with methodological assumptions. This means that it must be utilized inductively so that it does not direct the
questions given by the researcher. One of the key reasons for conducting qualitative research is that it is exploratory in nature (Ali & Limakrisna, 2013).

**FINDING AND DISCUSSION**

Based on relevant theoretical studies and previous research, the discussion of this literature review article is a review of relevant articles, followed by a review of the influence between variables and continued with making conceptual thinking about a research plan:

1. **Review Relevant Articles**

   Reviewing relevant papers as a basis for establishing research hypotheses by discussing the outcomes of prior studies, explaining parallels with research plans and differences in research plans with previous authors.

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flexible enough to adapt to the resulting changes in the social and economic landscape.

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<th>8</th>
<th>Haq &amp; Luqman (2014)</th>
<th>International trade promotes the building of human capital and, through the building of human capital, positively affects economic growth.</th>
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<th>Leitao (2013)</th>
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2. Influence Analysis among Variables

The Effect of Fiscal Policy on Economic Growth in Indonesia

Fiscal Policy affects economic growth in Indonesia, where the dimensions or indicators of Fiscal Policy, namely taxes revenue and government spending, affect the dimensions or indicators of economic growth in Indonesia, namely GDP (Nursini, 2017).

To enhance economic growth in Indonesia with due consideration to Fiscal Policy, what policy makers have to do is increase taxes revenue, and prioritize government spending on infrastructure and human resources (Hadiwibowo, 2010).

In addition, Fiscal Policy affects economic growth in Indonesia, if Fiscal Policy is managed effectively and efficiently by minimizing foreign loans to support government spending because foreign loans have a negative impact on economic growth (Qasim et al., 2015).

Fiscal Policy has an effect on economic growth in Indonesia, this is in line with research conducted by: (Ismal, 2011), (Simorangkir & Adamanti, 2010), and (Basuki et al., 2020).

The Influence of Monetary Policy on Economic Growth in Indonesia

Monetary policy influences economic growth in Indonesia, where the monetary policy dimensions or indicators of money supply, exchange rate, and inflation affect the dimensions or indicators of economic growth in Indonesia, namely GDP (Hariyanti & Soeharjoto, 2022).

To increase economic growth in Indonesia by paying attention to monetary policy, what policy makers must do is increase the money supply, as well as stabilize the inflation rate and the value of the rupiah where this will help increase GDP (Winarto, Poernomo, & Prabawa, 2021).

Monetary policy will be more significant in influencing economic growth in Indonesia if monetary policy is collaborated with fiscal policy where this will encourage economic growth in the long term (Gulo, 2008).

Monetary policy has an effect on economic growth in Indonesia has been researched by: (Seprillina & Ismail, 2012), (Aimon, & Syofyan, 2014), and (Prihatin, Arintoko & Siharno, 2019).
The Influence of International Trade on Economic Growth in Indonesia

International trade has an effect on economic growth in Indonesia, where the dimensions or indicators of international trade are export and import activities that affect the dimensions or indicators of economic growth in Indonesia, namely GDP (Arfiani, 2019).

To increase economic growth in Indonesia by taking into account international trade, what policy makers have to do is reduce exports and imports of raw materials and increase exports of finished goods where an increase in exports of finished goods will encourage output growth through increased employment and increased income in these sectors, which can be exported (Manik, 2022).

International trade affects economic growth in Indonesia, if international trade is able to increase state income, foreign exchange reserves, capital transactions and expand employment then this will increase economic growth in Indonesia (Fitriani, 2019).

International trade has an effect on economic growth in Indonesia, this is in line with research conducted by: (Wulandari & Zuhri, 2019), (Yuni & Hutabarat, 2021), and (Sahyanah, 2019).

Conceptual Framework

Based on the description of the topic, theoretical studies, relevant existing research and discussion of the influence between factors, the framework of this article is obtained as follows:

![Figure 1: Conceptual Framework]

Based on the conceptual framework figure above, then: fiscal policy, monetary policy, and foreign trade have an effect on economic growth in Indonesia.

Apart from these three exogenous variables that affect economic growth in Indonesia, there are many more elements that affect economic growth in Indonesia, including:
2) Foreign direct investment: (Hill et al., 2014), (Malik & Kurnia, 2017), (Abbas et al., 2011).
3) Labor: (Auzina, 2014), (Ma'ruf & Wihastuti, 2008).

CONCLUSION AND SUGGESTION

Conclusion

Based on the theory, relevant papers and discussion, hypotheses might be made for further research:
Suggestion
Based on the conclusions above, the advice for the next author is that there are still many other factors that affect economic growth in Indonesia, apart from Fiscal Policy, Monetary Policy and Economic Growth, therefore further studies are still needed to seek for these aspects. Other factors influence economic growth in Indonesia, apart from the three variables addressed in this article, are degree of regional fiscal autonomy, foreign direct investment, and labor.

REFERENCES


