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Analysis of the Influence of Public Debt on Financial Risk and Macroeconomic Balance in Indonesia

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Abstract. Public debt has a strategic role in supporting the financing of economic development in Indonesia, particularly in the infrastructure, health and education sectors. However, imprudent debt management can lead to financial risks, such as high interest payment burden and dependence on foreign debt, which can threaten macroeconomic stability. This study aims to analyse the effect of public debt on financial risk and macroeconomic balance in Indonesia. The proposed hypothesis states that effective debt management can support economic growth, while sub-optimal management can increase fiscal and macroeconomic risks. Using a descriptive-analytical approach and secondary data analysis from government reports as well as macroeconomic data, this study finds that public debt allocated to productive sectors, such as infrastructure, contributes positively to economic growth. However, dependence on foreign debt increases vulnerability to fluctuations in exchange rates and global interest rates. In addition, debt interest payments, which account for 15 per cent of state expenditure, limit the budget for other sectors, such as education and health. The research emphasises the need for a balance between productive investment and fiscal risk control. Policy reforms focusing on bureaucratic efficiency, financing diversification, and debt management transparency are needed to realise sustainable economic growth and macroeconomic stability.

Keywords: Public; Debt; Development; Financing; Risk

INTRODUCTION

Public debt plays a strategic role in financing economic development in Indonesia. In recent years, the government has relied on public debt to support strategic projects such as infrastructure development, health, and education. This can be seen from Indonesia's debt-to-GDP ratio which continues to increase, reaching 39.57% in 2023, along with the high financing needs due to the COVID-19 pandemic. Although public debt can be an important tool to accelerate development, careless management can pose risks to financial stability and macroeconomic balance. Public debt is the amount of financial obligations that must be at a certain level of debt (usually around 90% of GDP), which must be repaid by the government to lenders, both domestic and The negative impact of debt on growth becomes greater (Viphindrartin et al., 2023)[i]. Public debt plays a crucial role in smoothing business cycles, funding government investment, and responding to several crises(Suryandaru, 2023).

One of the main risks of public debt is the increasing burden on government finances, especially for interest and principal payments. Data from the Ministry of Finance shows that in 2023, interest expenditure on debt absorbed around 15% of total state spending. This condition has the potential to reduce fiscal space for financing other productive sectors, such as education and health. In addition, dependence on foreign debt can increase vulnerability to fluctuations in global exchange rates and interest rates, which have a negative impact on the domestic economy

Public debt also has the potential to disrupt macroeconomic balance if not managed properly. For example, increasing debt can trigger inflation if the government is too dependent on financing through money printing. In addition, excessive debt can undermine market confidence, increase the risk of sovereign default, and worsen the current account deficit. This condition is of particular concern considering the global situation which is still marked by economic uncertainty due to the impact of the pandemic and geopolitical conflicts.

On the other hand, well-managed public debt can provide major benefits for economic growth. Infrastructure projects financed through debt, such as the construction of toll roads and ports, can increase the productivity and competitiveness of the Indonesian economy. However, these benefits can only be achieved if the government is able to maintain a balance between the use of debt for productive investment and fiscal risk control. Based on the background above, this study aims to analyze the Effect of Public Debt on Financial Risk and Macroeconomic Balance in Indonesia. This study is expected to provide effective policy recommendations for the government in managing public debt sustainably, so as to support inclusive economic growth and macroeconomic stability.

Higher public debt can reduce consumption by raising taxes or reducing public spending, or by lowering income expectations or increasing uncertainty. Conversely, higher consumption could also affect public debt by increasing tax revenues or reducing the need for fiscal stimulus (Idroes et al., 2023).

Research conducted by Fitriani et al. (2023) in the journal "The Effect of State Debt on Indonesia's Economic Growth" states that both domestic and foreign debt have a significant impact on Indonesia's economic growth during 2004–2023. This study emphasizes the importance of maintaining the debt-to-GDP ratio at a safe level. Rizaldi et al. (2022) in the journal "Regional Financial Independence and Debt Ratio to Fiscal Sustainability in Indonesia" evaluates the relationship between the level of regional financial independence and the debt ratio to fiscal sustainability. They conclude that high dependence on debt has the potential to reduce productive spending capacity at the local level. Meanwhile, Utami et al. (2023) in the journal "The Impact of Foreign Debt, Interest Payments, and Gold Reserves on Inflation in Asian Countries" found that excessive debt accumulation can trigger inflation, reduce market confidence, and worsen the current account balance.

Syahbana et al. (2024) in the journal "Analyzing the Impact of the Economic Crisis on the Macroeconomic Level" showed that the global economic crisis caused a significant contraction in economic indicators, such as GDP, inflation, and unemployment rates. They also emphasized the importance of appropriate fiscal and monetary policy responses to accelerate economic recovery. Research by Genjar et al. (2018) in the journal "Pros and Cons of Debt and Infrastructure Development in Indonesia" explains that public debt is often used to finance infrastructure projects during a crisis, although on the other hand it can increase fiscal risk if not managed effectively. La Ode et al. (2024) in the journal "The Effect of Facilities and Services on BPJS Ketenagakerjaan Participant Satisfaction" highlights that exchange rate fluctuations during the economic crisis increased Indonesia's foreign debt burden, so risk mitigation strategies are needed.

Research conducted by Genjar et al. (2018) in the journal "Pros and Cons of Debt and Infrastructure Development in Indonesia" and La Ode et al. (2024) in the journal "The Effect of Facilities and Services on BPJS Employment Participant Satisfaction" confirms that public debt can be used to build infrastructure that can improve regional connectivity, economic

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competitiveness, and employment. However, both studies also warn that infrastructure financing through debt must be well planned to avoid long-term fiscal risks.

Utami et al. (2023) in the journal "The Impact of Foreign Debt, Interest Payments, and Gold Reserves on Inflation in Asian Countries" explains that public debt policies aimed at the social sector, such as education and health, can increase public trust in the government. This is in line with the findings of La Ode et al. (2024), which states that the use of debt for public projects can increase public satisfaction if its management is transparent.

Hypothesis Formulation

1. H1: Effective public debt management has a positive impact on economic growth through financing productive infrastructure projects.
2. H2: The economic crisis has a negative impact on macroeconomic stability by increasing inflation, the current account deficit, and the fiscal burden.
3. H3: Public debt used for infrastructure development can increase economic competitiveness and strengthen regional connectivity.
4. H4: The improvement of public facilities financed by public debt has a positive impact on public satisfaction and trust in the government.

This study emphasizes that public debt management that is balanced between use for productive spending and fiscal risk control can support Indonesia's macroeconomic stability in the long term. The use of public debt for infrastructure development will provide maximum benefits if supported by policy reforms that focus on bureaucratic efficiency and fiscal decentralization. In addition, to mitigate the negative impacts of the global economic crisis, a debt management strategy that is responsive to exchange rate fluctuations and other fiscal risks is needed. Finally, transparency in public debt management and a focus on socially relevant infrastructure projects are believed to be able to increase public trust and socio-economic stability. For further research, there are several aspects that can be explored in more depth. First, research can focus on analyzing the relationship between public debt management and Indonesia's economic resilience, especially in facing the global crisis, with a focus on long-term fiscal sustainability. Second, further studies can examine the social impact of public debt, including its effect on the level of public satisfaction with debt-financed services, to assess the success of fiscal policy. Furthermore, further research is needed on the influence of external factors, such as changes in the global economy, on Indonesia's foreign debt management. Finally, further research could also investigate the role of debt in accelerating development in underdeveloped regions, with the aim of reducing economic disparities between regions.

METHOD

A. Research objectives

are to understand the socio-economic impacts and implications of state debt based on the idea of interest rights.

B. Research Approach

Qualitative method with a descriptive-analytical approach.

C. Data Collection Techniques

1) In-depth interviews: Involving economic experts, policy makers, and affected communities.
2) Document study: Analysis of state debt reports, media articles, and government policy documents.

D. Data Analysis Techniques

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1) Data reduction: Sorting relevant information from the collected data.
2) Categorization: Grouping data based on main themes such as policies, social impacts, and repayment strategies.
3) Drawing conclusions: Conclude the relationship between state debt and community welfare.

E. Data Validation

Triangulation by comparing interview results, documents, and relevant literature.

RESULTS AND DISCUSSION

RESULT

Indonesia's economic growth shows a recovery trend post-COVID-19 pandemic. In 2023, growth will reach 5.05%, in line with inflation control and increased purchasing power.

Table 1 Indonesia's Economic Growth 2020-2023

Year	Economic Growth (%)
2020	-2,07
2021	3,70
2022	5,51
2023	5,05

Debt to GDP Ratio

Indonesia's government debt ratio in 2023 was 39.57%, below the international threshold of 60%. Most of the debt was dominated by domestic Government Securities (SBN) at 70.49%, which reduced exposure to exchange rate fluctuations.

DISCUSSION

1. Impact on Financial Risk

   A healthy increase in the debt ratio can help fund productive sectors such as infrastructure. However, the debt interest burden (15% of state spending) has the potential to reduce fiscal space for other different sectors such as education and health.
2. Impact on Macroeconomic Balance

   The decline in inflation in 2023 shows good monetary policy management. However, foreign debt must be managed carefully considering its impact on exchange rate stability and the risk of current account deficit. Impact on Financial Risk A healthy increase in the debt ratio can help fund productive sectors such as infrastructure. However, the debt interest burden (15% of state spending) has the potential to reduce fiscal space for other different sectors such as education and health.
3. Recommended Policies

   A. Diversification of Debt Sources: Prioritizing domestic financing to reduce exposure to global risks.

   B. Increasing State Revenue: Tax reform to reduce dependence on debt. -Debt Use Efficiency: Allocating debt to productive projects with long-term economic impacts

CONCLUSION

This study highlights the importance of public debt management as a strategic tool to support economic development in Indonesia. In general, the analysis and discussion in this study found that well-managed public debt can make a positive contribution to economic

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growth, especially through financing productive sectors such as infrastructure. Infrastructure projects funded through public debt can improve connectivity between regions, economic competitiveness, and create jobs. Therefore, it is emphasized that good debt management has an important role in encouraging regional development and reducing inequality between regions.

However, this study also shows that poorly managed public debt can pose risks to financial stability and macroeconomic balance. The large burden of interest payments, dependence on foreign debt, and vulnerability to fluctuations in global exchange rates and interest rates are the main challenges that need to be anticipated. Declining inflation and stable economic growth in 2023 are indicators of the success of monetary policy, but this needs to be balanced with more targeted fiscal management to maintain debt sustainability while strengthening national economic resilience.

This study makes a new contribution by emphasizing the importance of a balance between the use of debt for productive investment and fiscal risk control. Policy reforms that focus on bureaucratic efficiency, fiscal decentralization, and diversification of financing sources are important steps to ensure that the benefits of public debt can be felt sustainably. In addition, this study also underlines the importance of transparency in debt management to increase public trust and create socio-economic stability. Overall, the findings of this study are expected to be a policy guide for the government in managing public debt more wisely and innovatively. The implications are not only for strengthening regional development, but also for the development of science, technology, and community empowerment to realize inclusive and sustainable economic growth.

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