THE EFFECT OF EXCHANGE RATES ON FOREIGN DEBT AND ITS IMPACT ON INDONESIA'S ECONOMIC GROWTH.

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- **Abstract:** Sustainable economic growth is the main goal of every country, but low capital in developing countries creates an increase in foreign debt. Budget deficit policies in many developing countries have a positive impact on economic growth, but some have a negative impact. Therefore, the role of foreign debt on economic growth is still a major problem and is interesting to be studied further. Based on this, this study aims to analyze the influence of foreign debt on economic growth and the factors that influence it. This research is descriptive and verification using secondary data sourced from the BPS Statistic Indonesia, and Indonesian Financial Statistics (BI), as well as International Financial Statistics (IFS) for the period 2000-2019. This study uses multiple linear regression analysis technique, namely the method of Two Stage Least Square (TSLS) which is recursive. The results showed that the exchange rate and GDP variables had a positive effect on foreign debt, while FDI had a negative effect on foreign debt. As for the impact of foreign debt, government spending, lending interest rate and trade openness simultaneously they affect economic growth. However, partially foreign debt had a significant negative effect on Indonesia's economic growth. This happens because foreign debt is not fully used for investment or capital expenditure, but part of it is used to pay principal debt installment and loan interest rate. Thus, controlling the exchange rate and proper management of foreign debt must be carried out in an effort to increase economic growth. On the other hand, foreign direct investment (FDI) contributions have not been able to fully replace foreign debt as a source of capital for Indonesia's development. In analyzing Indonesia's economic growth, there are many variables that cause it, in this study limited to several important variables that can affect economic growth. This study does not involve the variables of domestic consumption and investment by the private sector. These two variables can be added to further research, to be more comprehensive in analyzing Indonesia's economic growth.

- **Keywords:** Sustainable economic growth, International Financial Statistics (IFS), positive impact, negative impact