

Government Subsidies, Consumption and Economic Growth in Indonesia

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Abstract

This study aims to investigate Government Subsidies, Consumption and Economic Growth in Indonesia. This study uses secondary data from world banks and processed regression using the moving average autoregression method. We find that consumption and government subsidies are positively related, which means that there are subsidies from the government to the poor or less able to increase consumption and boost the economy through the process of encouraging the domestic market. . The existence of subsidies from the government for the poor or less able to increase consumption and boost the economy through the process of encouraging the domestic market.

Keywords: Subsidies, Indonesia, Consumption

JEL Classification: C0, J24, J64

Background

The Indonesian government has a social program including subsidies so that certain necessities can be obtained by groups of people who are under poverty line. With the subsidy, the number of products purchased by the public is increasing so that consumption also increases (World Bank,2020).

When consumption increases it forms demand growth. The growing demand signals producers to produce more. Consumption itself is an activity using the use value of the product to meet needs (Zhang et al,2020).

Economic growth is generally indicated by growth in gross domestic product. Gross domestic product is the sum of the economic value of all goods and services produced domestically in a period of one year. With economic growth, the products produced are increasingly numerous and varied, resulting in labor absorption and an increase in the collective income of the community (Zubair et al,2020).

This study aims to investigate Government Subsidies, Consumption and Economic Growth in Indonesia. We use a hypothesis or a provisional conclusion that subsidies can increase consumption and ultimately increase economic growth.

Literature review

Consumption is one of the factors driving economic growth. And subsidies are government efforts to help poor people meet their daily needs as well as an effort to distribute income (Oqubay & Lin,2020).

Subsidies can boost consumption because the subsidies provided are used to buy products needed by subsidized recipients. Subsidies are the transfer of payment from the government to the needy people who are obtained from taxes (Renström et al,2021).

Economic growth is an indicator of the prosperity of the population. With economic growth, production increases and labor is absorbed so that the collective income of the community increases (Tomaselli et al,2019).

Research methods

This research studies Government Subsidies, Consumption and Economic Growth in Indonesia. This study uses secondary data from world banks and processed regression using the moving average autoregression method with the following equation:

$$GDP_t = C_t + \beta_1 G_{t1} + \beta_2 Co_{t2} + e_t$$

Where,

GDP = Gross Domestic Product

C = Constant

Co = Consumption

G = Government subsidies

e = Error Term

All financial data is calculated in USD.

Results and Discussion

The estimation results are as follows:

$$GDP = -18557680429.1 + 1.27505133555*CO + 1.87981692952*G$$

From the estimation results, consumption and government subsidies are positively related, which means that there are subsidies from the government to the poor or less able to increase consumption and boost the economy through the process of encouraging the domestic market. Table 1 illustrates the estimation results as follows:

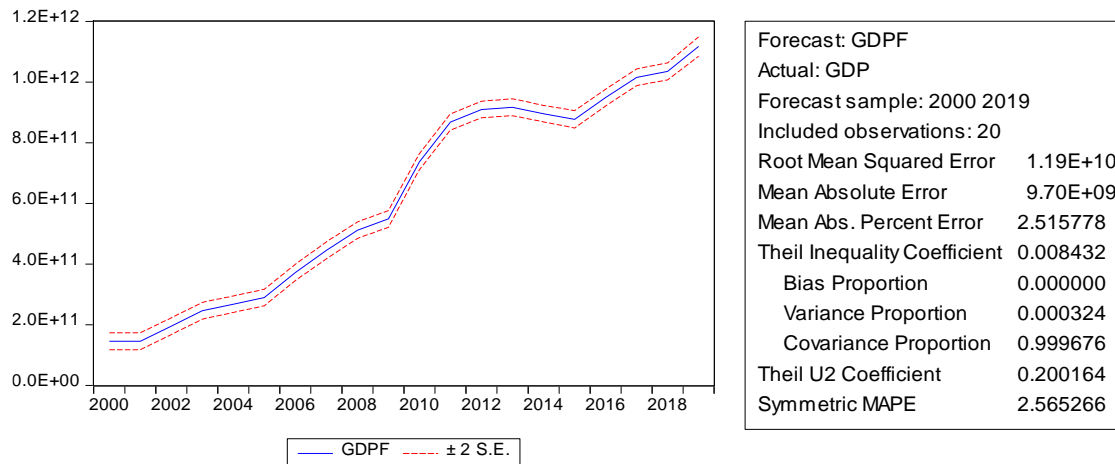
Table 1. Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.86E+10	1.01E+10	-1.844907	0.0825
CO	1.275051	0.168454	7.569123	0
G	1.879817	1.121109	1.676748	0.1119
R-squared	0.998703	Mean dependent var		6.24E+11
Adjusted R-squared	0.99855	S.D. dependent var		3.39E+11

S.E. of regression	1.29E+10	Akaike info criterion	49.5397
Sum squared resid	2.84E+21	Schwarz criterion	49.68906
Log likelihood	-492.397	Hannan-Quinn criter.	49.56885
F-statistic	6545.216	Durbin-Watson stat	0.840544
Prob(F-statistic)	0		

Based on the estimation results described in Table 1., it can be seen that the R-square is quite high, namely 0.99855 so that the quantitative calculation results show a 99% level of truth. Figure 1. Shows the forecasting of economic growth in Indonesia

Figure 1. Forecasting Economic Growth in Indonesia



Source: Author Computing

From the forecasting results, it can be seen that the economic growth in Indonesia is experiencing very rapid growth by taking into account Government Subsidies and Consumption in the process of building forecasting economic growth. The existence of subsidies from the government for the poor or less able to increase consumption and boost the economy through the process of encouraging the domestic market.

Conclusion

The existence of subsidies from the government for the poor or less able to increase consumption and boost the economy through the process of encouraging the domestic market.

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