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The Dynamics Analysis of Government Spending on Indonesian Economy: An Error Correction Model (ECM) Approach

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ABSTRACT

This study aims to investigate the dynamic relationship between macroeconomic indicators—Gross Domestic Product (GDP), Exchange Rate (ER), Money Area, and Net Domestic Credit to General Government Final Consumption Expenditure (GGFCE) in Indonesia. This study applied the Error Correction Model (ECM) to capture short-term fluctuations and long-term equilibrium relationships. These findings reveal that in the long run, all the analysed variables GDP, ER, Money Area, and Net Domestic Credit significantly affect the GGFCE's General Government Final Consumption Expenditure. However, in the short term, only Exchange Rates and Money Broadeners have a statistically significant impact. The error correction term coefficient (ECT) -0.4276 indicates a moderate adjustment speed towards long-term equilibrium after short-term shocks. Policymakers are advised to consider the interaction between monetary expansion and fiscal spending to maintain economic stability and ensure efficient allocation of resources in the public sector.

Keywords: Government Spending, Monetary, Fiscal Dynamics, Macroeconomics, Volatility

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