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ANALYSIS OF THE EFFECT OF GOVERNMENT EFFECTIVENESS, POLITICAL STABILITY AND INFLATION ON INDONESIA'S ECONOMIC GROWTH

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Abstract

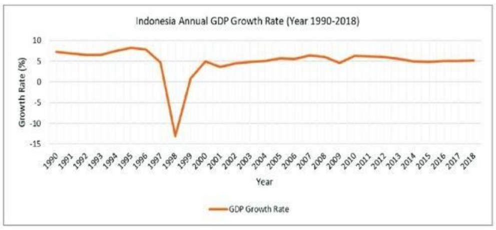
This study aims to analyze the effect of government effectiveness, political stability, and inflation on economic growth in Indonesia over a period of time. Using a quantitative approach with multiple linear regression models, the study found that government effectiveness and inflation exert a significant influence on economic growth, while political stability shows no meaningful impact. This finding confirms the important role of strong institutions and macroeconomic control in promoting development. However, increased government effectiveness is not always directly proportional to economic growth if it is not supported by productive policy direction. The analysis also shows that while political stability is an important factor in the long run, in this context its influence is not yet apparent. Overall, this study provides insights that governance effectiveness and price stability have a more decisive role in supporting sustainable economic growth in Indonesia.

INTRODUCTION

Economic growth is a key indicator in assessing a country's development performance. In the context of Indonesia, economic growth is not only related to the increase in Gross Domestic Product (GDP), but also reflects the government's success in creating social stability, employment, and improving people's welfare (Nurullah *et al.*, 2025) . However, in reality, Indonesia's economic growth over the past decade still shows fluctuations and high dependence on political factors and the effectiveness of public policies. As seen in the following graph,

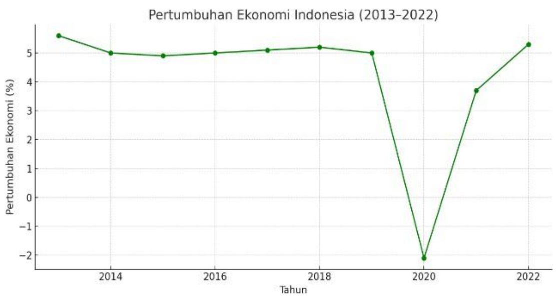
Table 1

Indonesia's Annual GDP Growth Trend 1990-2018



Source : *World Development Indicators (processed)*

Indonesia's Economic Growth Trend 2013-2022



Source : Central Bureau of Statistics (processed)

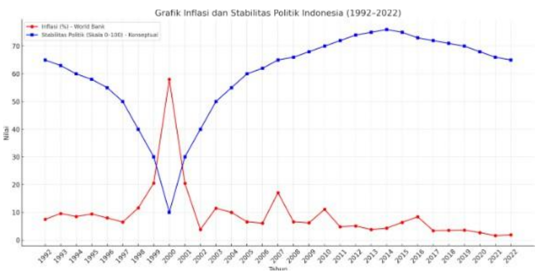
During the period 1992-2022, Indonesia's economy experienced ups and downs. In the early 1990s, Indonesia grew quite rapidly, at around 6-8 percent per year, driven by investment and exports. But in 1998 the Asian monetary crisis hit, causing the Indonesian economy to contract sharply to -13.1 percent. After the crisis, Indonesia slowly recovered and in 2000-2007 growth stabilized at around 4-6 percent per year. Despite the global crisis of 2008-2009, Indonesia was still able to maintain its growth at around 5 percent in 2010-2019, driven by domestic consumption and improved governance.

The COVID-19 pandemic in 2020 did make Indonesia's economy fall by -2.1 percent, but then there was a recovery in 2021 (3.7 percent) and 2022 (5.3 percent). This happened because of the effectiveness of government policies, political stability, and controllable inflation, so that Indonesia was able to survive and continue to move forward.

Indonesia has generally experienced positive economic growth from year to year, but sharp fluctuations still occur, especially when facing political turmoil, government transitions, or global inflationary pressures. These fluctuations can be understood more broadly when linked to several economic theory approaches. In neoclassical growth theory, the role of government is important as a facilitator to create conducive conditions for capital accumulation, labor growth, and technological advancement (Press & Journal, 2010). Meanwhile, Keynesian theory emphasizes the active role of the government through fiscal and monetary policies to maintain aggregate demand, stability, and growth, especially during shocks (Somé *et al.,* 2018). In addition, institutional theory also emphasizes the importance of institutional quality and governance, as institutional aspects can determine the effectiveness of policy implementation and the achievement of more inclusive and sustainable growth.

Political economy explains that a country's economic growth is not only determined by market mechanisms, but also by how political power is exercised, how fiscal policy is managed, and how state institutions respond to social and economic pressures. In Indonesia, although democracy has been in place since the 1998 reforms, political problems such as conflicts between state institutions, budget politicization, and weak bureaucratic accountability are still serious obstacles to government effectiveness. As a result, development policies are often inconsistent, short-term and poorly directed.

Inflation Trends and Indonesia's Political Stability Index 1992-2022



Source: World Bank & Worldwide Governance Indicators (processed)

Recurrent political crises, party fragmentation, and overlapping policies between the center and regions show that Indonesia's economic growth is not merely an economic problem, but a structural problem in the political economy. Therefore, it is important to review economic growth from an institutional and governance perspective. This is in line with the view of institutional theory which emphasizes that the quality of institutions including government effectiveness and political stability are key prerequisites for sustainable development. In addition, neoclassical and monetarist growth theories also underline the importance of inflation control as a factor that affects the efficiency of resource allocation and people's purchasing power.

Institutional theory emphasizes the importance of the quality of institutions and governance in influencing economic development outcomes. Effective institutions can reduce uncertainty in economic exchange and strengthen incentives to produce and innovate. In the Indonesian context, government effectiveness and political stability can be seen as a reflection of institutions that support efficiency and growth. This is also consistent with the theory of political stability and economic growth, where political stability promotes policy predictability, increases investor confidence, and creates an environment conducive to long-term growth. Instability, on the other hand, can disrupt investment flows, weaken policy coordination, and hamper the implementation of development programs. Thus, it can be concluded that institutional aspects and political stability are important interrelated elements that determine Indonesia's economic growth performance.

Government effectiveness is an important element that can influence the direction and quality of economic growth. An effective government is able to formulate, implement and evaluate economic policies properly, and ensure the creation of efficient and accountable public services. Government effectiveness also reflects the capacity of the executive to respond to the needs of society and solve strategic problems related to economic development (Aisen & Veiga, 2008) .

Inflation is also a macroeconomic variable that is often a major concern in maintaining sustainable growth. Uncontrolled general price increases can erode people's real incomes and reduce household consumption capacity. Even psychological inflation, when expectations of future prices worsen, can cause changes in economic behavior that are detrimental to the production and distribution of goods and services. Therefore, controlling inflation is a must for countries that want to maintain economic stability (Zotova & Cohen, 2016) .

The three variables of government effectiveness, political stability, and inflation are important elements that interact with each other and together form the foundation of economic growth. An effective government in a stable political climate will have more power to maintain price stability and boost national output. The balance between good governance, conducive political conditions, and macroeconomic stability is an absolute requirement in creating a resilient and highly competitive economy from research (Digdowiseiso, 2024) .Unfortunately, in many developing countries including Indonesia, these three aspects often face tensions. Governments that have good development plans can be hampered by volatile political dynamics. Similarly, success in maintaining price stability is often not accompanied by deep institutional reforms. Therefore, it is important to conduct a thorough measurement and analysis of the extent to which these three factors influence each other and contribute to economic growth (Li *et al.* ., 2003)

Through an empirical approach based on long-term data, this study attempts to fill the gap in studies linking institutional quality, political stability, and macroeconomic indicators to Indonesia's economic growth. The results obtained are expected to be a strategic input for policy makers in designing more targeted and effective structural reforms. Thus, Indonesia's economic development does not only pursue high growth rates, but also rests on strong institutional and political foundations and a healthy macroeconomic environment.In the history of Indonesia's development, the relationship between government institutions and economic growth is not new. From the New Order to the reform era, the quality of governance has played a major role in determining the direction of national development. When the bureaucracy runs efficiently and the government performs its public service functions well, economic growth momentum is more easily achieved. However, when there are inefficiencies, overlapping policies, or weak inter-agency coordination, development is hampered and public trust in government declines according to research from (Oyinlola, 2013) .

Effective governance can not only be seen from policy outputs, but also from its ability to manage risks and absorb community aspirations. When the policy formulation process is inclusive and data-based, the results tend to be more targeted and accepted by various parties. This can accelerate program implementation and minimize political resistance that often disrupts development implementation at the national and regional levels according to research from (Kurnia *et al* .., 2024)

A prolonged political crisis, or conflict between state institutions, can have an impact on slowing down national economic performance. When the government's attention is divided by political issues, economic agendas can be neglected. In some cases, political crises have even led to economic reforms being stalled or canceled due to the absence of adequate political support in parliament from research (Ouedraogo *et al.* ., 2022)

Inflation, as an economic phenomenon that often comes to the public's attention, not only impacts the consumption side, but also productivity. Rising raw material prices, for example, can reduce the profit margins of businesses, which in turn affects expansion and hiring decisions. At the household level, inflation can reduce purchasing power and force people to reduce consumption, which impacts aggregate demand nationally according to research from (Rezki, 2022) .

The institutional reforms that have taken place since the early 2000s provide a great opportunity for Indonesia to strengthen the foundations of its governance. However, the main challenge lies in the sustainability of these reforms. Many policies were responsive to the crisis, but were not continued consistently under normal circumstances. This makes government effectiveness fluctuate from time to time, which certainly has an impact on the sustainability of economic growth according to research from (Putri T. *et al.* ., 2024)

Ideal economic growth does not rely solely on market forces and investment, but also requires a strong state role through the effectiveness of government institutions. A well- functioning state can create fair regulations, ensure legal certainty, and provide public infrastructure that boosts real sector productivity. In the context of Indonesia, government effectiveness becomes even more important given the size of the country, the diversity of regional needs, and the complexity of the existing bureaucracy. Governments that are able to respond quickly and appropriately to economic challenges will be more successful in maintaining growth momentum according to research from (Bohn, 2019) .

Apart from the governance aspect, the political stability factor has a direct correlation to the success of economic development. When a country's political conditions tend to be peaceful and consistent, the formulation of economic policies will be more focused and implementable. Conversely, political uncertainties such as tensions between the executive and legislative branches, or horizontal conflicts in the community, will create disruptions to investment flows and development projects. Political stability is not only important for the government's credibility in the eyes of the public, but also a key consideration for domestic and foreign economic actors from research (Gnan *et al.,* . 2013)

It is important to view government effectiveness, political stability and inflation not as stand-alone variables, but as a mutually reinforcing unit within the development framework. Indonesia as a developing country that continues to move in the flow of globalization requires a policy design based on institutional and macroeconomic integration. By strengthening these three pillars simultaneously, Indonesia can strengthen the foundation of its economic growth so that it is not only high in numbers, but also resilient, inclusive, and sustainable by research (Pakpahan, 2023)

In the current era of global uncertainty, the resilience of the national economy is greatly influenced by the government's ability to respond to crises quickly and appropriately. The COVID-19 pandemic is clear evidence that countries with high government effectiveness are able to maintain economic stability even under great pressure. Measured policy responses, efficient distribution of social assistance, and solid cross-sector coordination have proven to be important factors in maintaining growth rates. This shows that effectiveness is not only about planning, but also about the speed of adaptation and decisiveness in policy implementation according to research from (Widjanarko, 2024).

Theoretically, government effectiveness reflects the capacity of institutions to design and implement policies that promote development. Political stability creates legal certainty and policy continuity, which is important for the business climate. Inflation as a macroeconomic indicator strongly influences people's consumption and investment behavior. If government effectiveness is low and political stability is disrupted, then various policies designed to promote economic growth will be ineffective. Conversely, if inflation is uncontrolled, the effect can weaken all fiscal and monetary instruments that have been designed. Thus, the influence of these three variables needs to be studied simultaneously to understand the extent to which they affect Indonesia's economic growth. With this in mind, this study seeks to fill the academic void by analyzing the influence of government effectiveness, political stability, and inflation on Indonesia's economic growth through an empirical approach. The results of this study are expected to contribute to policy makers to formulate a more sustainable, equitable, and inclusive development strategy by taking institutional and macroeconomic factors more seriously.

Problem Formulation

1. How do government effectiveness,

political stability, and inflation affect economic growth in Indonesia?

Destination

1. Analyze the effect of government effectiveness, political stability and inflation on economic growth in Indonesia.
2. Knowing the simultaneous influence between government effectiveness, political stability, and inflation on economic growth in Indonesia.6

LITERATURE REVIEW

Theoretical Foundation

This research is based on a number of relevant macroeconomic and governance theories to explain the effect of government effectiveness, political stability, and inflation on economic growth. Below are some of the main theories used:

A. Neoclassical Growth Theory

Neoclassical growth theory developed by Robert Solow emphasizes that long-term economic growth is influenced by capital accumulation, labor growth, and technological progress. The government has a role as a facilitato0r in creating an environment conducive to investment and increased productivity. In the context of this study, government effectiveness affects the efficiency of resource allocation as well as the ability to support technological progress and human capital (Press & Journal, 2010).

B. Keynesian Theory

In the Keynesian view, economic growth is influenced by aggregate demand. When aggregate demand declines, the government needs to intervene through fiscal and monetary policies. This theory supports the need for an active government role in managing public expenditure, controlling inflation, and creating political stability as prerequisites for increased national demand and production (Somé et al., 2018) .

C. Institutional Theory

Institutional theory emphasizes the importance of the quality of institutions and governance in influencing economic development outcomes. (Mantzavinos, 2012) states that effective institutions can reduce uncertainty in economic exchange and strengthen incentives to produce and innovate. In this regard, government effectiveness and political stability are seen as reflections of institutions that support efficiency and growth.

D. Theory of Political Stability and Economic Growth

*According to (Abdelkader, 2017) , developed a theory that links political stability and economic growth. In his theory, political stability promotes predictability of economic policies, increases investor confidence, and creates an enabling environment for long-term growth. Instability, on the other hand, disrupts investment flows, weakens policy coordination, and hinders the implementation of development projects.

E. Inflation and Economic Growth Theory

In macroeconomics, inflation and economic growth are interrelated. There are theories that explain this relationship, such as the Phillips curve, as well as the views of the famous economist, Milton Friedman. Friedman argued that inflation occurs because the amount of money in circulation increases faster than the growth of production of goods and services. If inflation is too high, prices become chaotic, markets do not run efficiently, and economic growth is stunted. Simply put, too much money without an increase in production can make the economy fall apart (Friedman, 1987). By combining these theories, this study seeks to comprehensively examine the influence of government effectiveness, political stability, and inflation on the dynamics of Indonesia's economic growth.

Government Effectiveness and Economic Growth

Government effectiveness is a governance indicator that measures the extent to which public institutions are able to provide quality services, implement policies effectively and maintain administrative stability. Effective governments tend to have high institutional capacity in preparing budgets, managing development programs, and ensuring public accountability.

According to (Kaufmann et al., 2010), government effectiveness is closely related to the level of bureaucratic efficiency, the independence of state institutions, and the quality of public services. In the context of economic growth, this effectiveness is important to ensure that resources are allocated productively and development programs are on track. Research by (Kaufmann et al., 2010) , states that improving the quality of institutions, including government effectiveness, can encourage capital accumulation and productivity.

In Indonesia, various governance reforms have been carried out since the beginning of the 1998 reform era, such as the implementation of e-government systems, budget transparency, and strengthening oversight institutions. However, challenges still arise in the form of overlapping policies, weak regional capacity, and an inefficient bureaucracy.

Political Stability and Economic Growth

Political stability is the condition in which a country has a political system that is relatively free from major conflicts, abrupt changes in government, or threats of violence that disrupt economic activity. This stability is important because it creates predictability in policy, increases investor confidence, and supports the smooth implementation of development projects. According to (Abdelkader, 2017) , political instability can lead to policy uncertainty and decreased domestic and foreign investment, which in turn reduces economic growth. In the long run, politically stable countries tend to have stronger fiscal and institutional capacity to promote sustainable growth. In political economy theory (Acemoglu & Robinson, 2012), political stability can provide room for consistent and sustainable economic policy implementation. However, stability alone does not guarantee equitable distribution of development outcomes. If political stability only guarantees a status quo that benefits the elite, then inequality will increase. Conversely, stability accompanied by a commitment to redistribution and protection of vulnerable groups will reduce inequality. Therefore, the effect of political stability on income inequality is highly dependent on the context of the government and the policy direction taken during that period.

Indonesia experienced significant political dynamics post-1998, including the transition from authoritarian to democratic rule, decentralization of power, and more open political competition. While the democratization process has brought much progress, it has also brought challenges in terms of policy consistency, horizontal conflict, and politicization of public budgets.

Inflation and Economic Growth

Inflation is the general rate of increase in the prices of goods and services in an economy over a given period. The relationship between inflation and economic growth is complex. In moderation, inflation can indicate vibrant economic activity. However, inflation that is too high or uncontrollable can reduce people's purchasing power, increase production costs, and create uncertainty for businesses.

According to (Friedman, 1987) argues that inflation is a monetary phenomenon that arises when the amount of money in circulation exceeds real needs. When inflation is high, central banks tend to raise interest rates which in turn can suppress consumption and investment. (Somé *et al.,* 2018) shows that high inflation significantly reduces economic growth because it disrupts the efficiency of the price system and complicates investment planning. For Indonesia, price stability is one of the main focuses of monetary policy. Bank Indonesia as the monetary authority has an annual inflation target that serves as a reference in making interest rate decisions. In the past two decades, Indonesia has managed to lower its inflation rate from double digits to single digits, although food and energy price volatility remains a challenge.

Previous Research

Research by (Aisen & Veiga, 2011) shows that political stability has a significant influence on economic growth, especially in developing countries. They emphasize that internal political conflicts often weaken a country's capacity to design consistent economic policies. Meanwhile, research by (Mo, 2001) states that the effect of fiscal policy on growth is highly dependent on political stability. When political conditions are stable, government spending tends to be more productive and supportive of growth. Conversely, in uncertain political situations, public spending is often directed towards short-term populist interests.

According to (Eskesen & Fuglsang, 2017) also emphasizes that in the context of developing countries, government effectiveness greatly affects the success of development programs. Governments that have low implementation capacity tend to fail to achieve the expected growth targets.

Framework of Thought

Based on the theory and results of previous research, the following framework is developed: Economic growth is influenced by a number of internal factors, including government effectiveness, political stability, and inflation. These three variables interact with each other in influencing investment decisions, economic sector productivity, and the allocation of national resources. An effective government creates efficient and accountable policies, while political stability provides legal and institutional certainty for businesses. On the other hand, low and stable inflation will create a favorable economic climate for growth.

This framework can be described in the form of a relationship scheme between variables:

- X1 E-GOV (Government

Effectiveness)
- X2 POL-STAB (Political Stability)
- X3 INF-RATE (Inflation)
- Y E-GROWTH (Economic Growth)

METHODOLOGY
RESEARCH METHODS

Research Type and Approach

This research uses quantitative methods, which means numerical data is used to understand a phenomenon. The approach is descriptive and associative, which means that this research not only describes the situation but also looks for relationships between the factors studied. The aim is to see how political instability and budgetary spending affect the income gap. Since this study focuses on the relationship between variables, statistical methods are used to analyze data collected over time (time series). With this approach, the results can be more clear and objective based on the numbers obtained. Simply put, this research tries to find patterns in the data to understand the impact of politics and economic policies on income inequality.

Research Variables

In this study there are three main variables, namely:

- Dependent Variable (Y): Economic Growth
- Independent Variable (X):
  - X1: Government Effectiveness
  - X2: Political Stability (measured using a political index such as the *Political Stability Index* from Worldwide Governance Indicators - WGI or similar data that describes Indonesia's annual political dynamics)
  - X3: Inflation

This study uses secondary data, meaning data that has been collected by official institutions and is not the result of surveys or direct collection by researchers. The data used is quantitative and comes from various reliable sources, including the World Bank and other research projects. Some of the types of data analyzed include: economic growth, government effectiveness, political stability, and inflation. The time span used in this study is from 1990 to 2022, covering a period of 32 years. By using data from official sources, this study aims to obtain objective and reliable results. Simply put, this research analyzes figures from various sources to understand how economic and political factors have changed over more than three decades.Data -Collection Methods. Data was collected through documentation and desk study, i.e. by accessing and compiling macroeconomic data and political indicators from official sources such as BPS, World Bank, WGI, MoF, as well as relevant academic publications.

Data Analysis Method

Data types and sources

Multiple linear regression models are used to study the relationship between unbound variables (such as government effectiveness, political stabilization, and inflation) and bound variables (such as economic growth). In this analysis, the multiple linear regression method was used with the help of Stata 14 and Eviews 12 software. This technique helps to see the relationship between one main factor to be understood or predicted with two or more other factors that can affect it. Simply put, this method is used to find out whether and how much change in one aspect occurs due to changes in several other aspects. In this way, research can provide a clearer picture of the interrelationships between variables.

$E - Growth_t = \beta_0 + \beta_1$ E − Gov + β_2 $Pol - Stab$ + β_3Inf − rate + E_t

Where

Y_t = Economic Growth (E-GROWTH)

X_1 = Government Effectiveness (E-GOV)

X_2 = Political Stability (POL-STAB)

X_3 = Inflation (INF-RATE)

β_0 = Constanta

β_1, =Coefficientβ_2 dan β_3

E_t = Error term

t = Time series 1990-2022 (32 data)

Statistical Test

Before the interpretation of the regression results, the model will be tested for validity and feasibility through a series of classical assumption tests and additional econometric tests.

A. The partial t test is a statistical method used to see the effect of each factor (independent variable) on an outcome (dependent variable) separately. The purpose of this test is to find out whether each factor actually affects the observed outcome, assuming the other factors remain the same. It works quite simply: if the test number (t-count) is greater than the comparison number (t-table), then the conclusion is that the factor does have a significant effect. Conversely, if the t-count is smaller, then the factor is not considered to have a significant effect on the results being analyzed. Simply put, this t-test helps ascertain whether or not each factor actually has an effect in a study.

B. Simultaneous test (F test) is a statistical method used in regression analysis to determine whether all factors (independent variables) together significantly affect the results (dependent variable). This test is carried out with an error limit of 5% (α = 5%), which means there is a small possibility that the conclusion could be missed. If the calculated F value is high enough, then it can be concluded that the factors do have a real impact on the observed results. Conversely, if the F value is low, then the factors are considered to have no significant effect. Simply put, this test helps ascertain whether all the factors in the study combined actually had an effect on the final outcome.

C. The Coefficient of Determination (R) is a number that indicates how well certain factors (independent variables) can explain changes in an outcome (dependent variable) in a regression analysis. Its value ranges from 0 to 1-the higher the number, the stronger the relationship between the factors and the observed outcome. For example, if the R value is 0.91, it means that 91% of the change in the outcome can be explained by the factors under study, while the remaining 9% is influenced by things outside the analysis. In the context of this study, a high number indicates that changes in national income are mostly related to the level of employment and unemployment. Simply put, R helps us see whether the factors studied actually play a role in determining the outcome or are just coincidental.

D. Classical Assumption Test: Classical assumption tests are conducted to ensure that the regression model provides precise, bias-free, and consistent estimates by reducing statistical errors. They test for normality, multicollinearity, heteroscedasticity, and autocorrelation. The aim is to ensure that the regression model used is appropriate and that the results of the analysis can be interpreted accurately. If the classical assumptions are correct, then the regression model can be used to make accurate predictions or forecasts.

E. Normality Test: The purpose of the normality test is to ensure that the residuals of the regression model have a normal distribution. Normal residuals are one of the most important assumptions in regression, especially for statistical validity tests such as the t-test and F-test. In this study, normality analysis was performed with the Jarque-Bera statistic, and the results showed that the residuals had a probability of 0.765 to have a normal distribution (>0.05). Therefore, the normal standard has been violated.

F. The multicollinearity test is conducted to see if there is too strong a relationship between the independent variables in a regression model. If this relationship is too high, the analysis results can be inaccurate, and the regression values are difficult to interpret. In this study, the Variance Inflation Factor (VIF) was checked. The results show that all variables have a VIF below 10, which means there is no multicollinearity problem. Thus, the model remains reliable without being disturbed by interactions between independent variables. Simply put, this test ensures that the factors being analyzed do not influence each other too much to the point of confounding the research results.

G. Heteroscedasticity test is conducted to see if there is a difference in the variation of predicted results and actual data in a regression model. If the variation remains stable, it is called homoscedasticity, while if it changes, it is called heteroscedasticity. According to Ghozali (2013), the Glejser test is used by calculating the absolute value of the residuals of the model against the independent variables. In this test, the decision is taken based on the Obs R squared probability value. If the result is greater than the significance limit of 5% (0.05), then the data is considered not to experience heteroscedasticity problems. Simply put, this test helps to ensure that the data pattern does not deviate and can be used for more accurate analysis.

H. The unit root test is a statistical method to check whether data in the form of a time series is stable or changing over time. This is important because if the data is unstable, regression analysis could lead to erroneous conclusions. In this study, the unit root test was conducted using the Augmented Dickey-Fuller (ADF) method. The way it works is simple: if the test result number (statistical value) is smaller than the comparison number (critical value), then the data is considered stable at that level. Otherwise, it is necessary to adjust (differencing) until the data stabilizes. Simply put, this test ensures that the data used does not mislead the results of the analysis.

I. Cointegration Test: The cointegration test aims to see if there is a long-run relationship (equilibrium) between several non-stationary variables. In this

J. study, the cointegration test is applied using the Johansen Cointegration approach. If based on the Johansen test at least one cointegration vector is detected, it can be concluded that cointegration occurs, i.e. a long-run relationship among the variables analyzed.

Vector Error Correction Model (VECM): If cointegration occurs, the next approach used is the Vector Error Correction Model (VECM). The VECM model is useful for analyzing how short-run differences adjust to long-run equilibrium. With VECM, we can see the speed of adjustment and the short-term influence of each variable on other variables.

RESULT AND DISCUSSION

NORMALITY TEST

Table 12 -Histogram

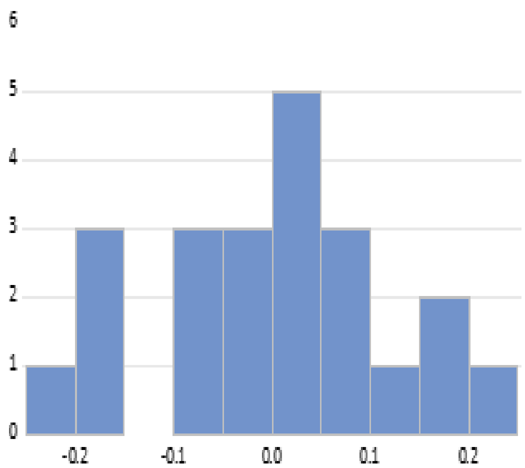


Table 13 Normality Test Statistics

Statistics	Value
Mean	4.35e-16
Median	0.014107
Maximum	0.225040
Minimum	-0.232880
Std. Dev.	0.126036
Skewness	-0.178628
Kurtosis	2.309980
Jarque-Bera	0.553446
Probability	0.758265

The normality test is carried out to ascertain whether the residuals from the regression analysis are spread with a reasonable pattern, in accordance with one of the important rules in classical linear regression. In this study, the normality test used the Jarque-Bera Test method. The results show a statistical number of 0.553446 and a probability of 0.758265. Since the probability number is much greater than the 0.05 limit, it can be concluded that the residual data has a normal distribution. This means that the regression model used has met an important requirement in statistical analysis, namely the assumption of residual normality. Simply put, the results of this test ensure that the data used does not deviate and can be used for further analysis.

Based on the descriptive statistics output, the mean residual value is 4.35e-16, which is very close to zero, and the median value is 0.0141. This indicates that the residual values are spread symmetrically to the zero line, and there is no tendency for the residuals to deviate in a particular direction. The residual standard deviation of 0.126036 indicates that the residual variation is quite small. Skewness is -0.178628, which means that the residual distribution has a slight slope to the left, but is still within normal limits (between -1 and +1). Meanwhile, the kurtosis is 2.309980, slightly below the normal distribution ideal of 3, which indicates that the residual distribution is slightly platykurtic, but still close to the normal distribution.

Overall, the results of this normality test provide confidence that the residuals of the regression model analyzing the effect of government effectiveness (E-GOV), political stability (POL-STAB), and inflation (INF-RATE) on economic growth (E-GROWTH) in Indonesia meet the normal distribution requirements, so that the regression model used can be considered valid for further analysis. These results support that the parameter estimation and interpretation process in this study can be done validly without any bias due to abnormal residual distribution.

Stationary Test/Root Test

Dfuller e growth				
Dickey-Fuller test dor unit roo			Number of obs	32
		Interpolated	Dickey-Fuller	
	Test statistic	1% critical value	5% critical value	10% Critical Value
Z(t)	-9.050	-3.716	-2.986	-2.624
MacKinnon approximate p value for Z(t)=0.0000				

The results of the unit root test (Augmented Dickey-Fuller) on the E-Growth variable Y show a p-value <0.05. This means that Y is stationary at the E-Growth (Y) variable level has a Prob Value, so it can be concluded that the data has passed the Stationary Test.

Dfuller d.egov				
Dickey-Fuller test dor unit roo			Number of obs	32
		Interpolated	Dickey-Fuller	
	Test statistic	1% critical value	5% critical value	10% Critical Value
Z(t)	-7.946	-3.750	-3.000	-2.630
MacKinnon approximate p value for Z(t)=0.0000				

After the First Difference approach, the E-Gov Variable (X1) has a Prob. Augmented Dickey- Fuller (ADF) of 0.000 <0.05, it is concluded that the data has passed the Stationary Test.

Dfuller d.polstab				
Dickey-Fuller test dor unit roo			Number of obs	32
		Interpolated	Dickey-Fuller	
	Test statistic	1% critical value	5% critical value	10% Critical Value
Z(t)	-5.740	-3.750	-3.000	-2.630
MacKinnon approximate p value for Z(t)=0.0000				

After the First Difference approach, the Polstab Variable (X2) has a Prob. Augmented Dickey- Fuller (ADF) of 0.000 <0.05, it is concluded that the data has passed the Stationary Test.

Discussions

Economic growth is one of the most vital indicators in measuring a country's economic performance. In Indonesia, efforts to boost economic growth cannot be separated from the role of the government, the stability of the political system, and macroeconomic conditions, especially inflation. These three aspects are crucial in creating a conducive ecosystem for businesses, households, and the public sector. This discussion aims to describe in depth how each variable of government effectiveness (E-GOV), political stability (POL-STAB), and inflation (INF-RATE) affects economic growth (E-GROWTH) in Indonesia during the period 1990-2022, taking into account the social, political, and economic conditions that developed during that period.

➢ Government Effectiveness on Economic Growth

Government effectiveness is a measure of how well a country's government can formulate and implement quality public policies, deliver public services efficiently, and demonstrate high bureaucratic credibility. In Indonesia, the level of government effectiveness is strongly linked to bureaucratic reform, law enforcement, and corruption control. This effectiveness is reflected in how the government manages the budget, designs pro-market regulations, and provides adequate public services.

However, in practice, increased effectiveness is not always directly proportional to accelerated economic growth. This is due to several possibilities. First, increased administrative effectiveness may focus more on expenditure control, increased accountability, or structural efficiency, which in the short term may limit fiscal spending and state investment into productive sectors. Second, institutional reforms aimed at strengthening internal controls may slow down bureaucratic processes, especially in economic decision-making and implementation of large-scale infrastructure projects.

In addition, Indonesia also faces challenges in distributing this effectiveness evenly across regions. Institutional capacity gaps between the central and local governments, as well as unsynchronized regulations in the era of decentralization, may hinder the efficiency of national economic policies. Therefore, while government effectiveness increases in some indicators, its impact on economic growth is not always immediately apparent, and can even show a negative relationship if effective policies are not oriented towards short-term economic expansion.

➢ Political Stability on Economic Growth

Political stability refers to a situation where the government system runs safely and peacefully, without major disruptions such as coups, civil unrest, elite conflicts, or extreme policy changes. In the Indonesian context, political dynamics have fluctuated significantly since the reform era. The transition from an authoritarian system to a multiparty democracy brought consequences in the form of freedom of speech, decentralization of power, and increasingly active participation of the public in the political process.

Theoretically, political stability is the main foundation for sustainable economic growth. When political conditions are stable, businesses have the confidence to invest, consumers feel safe to spend, and foreign investors see Indonesia as a prospective investment destination. But in reality, political stability often shows long-term effects that are not necessarily reflected in annual growth figures.

Some possible causes of the weak direct effect of political stability on economic growth include: (1) overly cautious policy adaptation in maintaining political coalitions can lead to compromised and less bold economic policies; (2) formal stability (absence of open conflict) is not necessarily accompanied by substantial stability in the form of consistency and continuity of economic policies; and (3) the number of political compromises in a multiparty system makes the legislative process and implementation of strategic policies slow.

Furthermore, political stability also has no direct impact if it is not supported by the quality of political and government institutions. Stability that is only symbolic without integrity, efficiency and synergy between institutions will not be enough to significantly boost economic activity.

- Inflation on Economic Growth

Indonesia as a developing country often faces inflationary pressures due to various factors: fluctuations in global energy and food prices, dependence on imported raw materials, and volatility in the rupiah exchange rate. In addition, reactive or inconsistent fiscal and monetary policies can exacerbate inflationary conditions, especially if fiscal and monetary authorities do not coordinate effectively.

Inflation has a negative impact on growth because it reduces the real value of people's income, reduces savings, and increases the operational costs of businesses. The results of this study are consistent and in line with the available theoretical and empirical findings. The study found that inflation has a negative and significant effect on Indonesia's economic growth. This is consistent with the theory of Milton Friedman (1987) and the findings of Somé *et al*. (2018), which states that persistent inflation can cut people's purchasing power, reduce consumption and investment, and in turn slow down economic growth. Indonesian researchers, such as Rezki (2022), have also found similar results, namely that inflation is indeed a macroeconomic problem that can be a drag on growth if it occurs significantly and cannot be controlled.

Therefore, controlling inflation should be the main focus of the government and Bank Indonesia. Stable inflation will create rational price expectations, strengthen market confidence, and provide room for competitive interest rates to encourage productive investment.

CLOSING

Based on the results of the analysis and discussion, it can be concluded that government effectiveness and inflation are two aspects that significantly influence Indonesia's economic growth, while political stability does not have a significant effect. This suggests that the quality of governance and inflation control are important aspects that must be given attention if Indonesia is to achieve more mature and sustainable economic growth. These findings are in line with theory and several previous studies which state that government effectiveness can be a driver or inhibitor of growth, depending on the quality of governance and policy implementation. In the Indonesian context, government effectiveness still faces challenges, so its role in the economy is still not maximized. This is because ongoing governance improvements focus more on administrative and accountability aspects, rather than on services and stimulus that can encourage broad economic activity. Meanwhile, political stability does not have a significant effect on growth. This could be because Indonesia is generally in a fairly politically stable condition, so the stability aspect is not a dominant issue. In other words, relatively peaceful and well-maintained conditions do not directly become an important driver of growth, if other aspects such as government effectiveness and inflation control are still more pressing issues. Inflation is proven to be a drag on growth if it occurs continuously and cannot be controlled. This is in accordance with theory and previous findings, namely that inflation can reduce people's purchasing power, increase production costs, and reduce business certainty, which in turn can hamper the pace of economic growth.

ADVICE

Based on the findings of this study, the following are some suggestions:

1. The government needs to direct institutional effectiveness not only to administrative efficiency, but also to the success of policies that have a direct impact on economic growth, such as strengthening investment, real sector productivity, and simplifying business licensing bureaucracy.
2. Inflation control should be a top priority, especially through synergies between fiscal and monetary policies. The government must maintain price stability of basic necessities and energy to protect people's purchasing power and boost household consumption.
3. Although political stability did not prove to be statistically significant, it is important for policymakers to continue to maintain a peaceful and conducive political climate, as stability remains an important cornerstone in maintaining long-term investor confidence.
4. Further research is recommended to explore other variables such as investment, quality of government spending, or other governance indices that can enrich the understanding of the determinants of Indonesia's economic growth in a more comprehensive and sectoral manner.

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