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Macroeconomic Stability, Corruption, and Economic Growth in Indonesia: A Long-Run Time-Series Investigation

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Abstract

This study employs a quantitative research approach using annual time series secondary data from 1995 to 2025. The data were analyzed using the Ordinary Least Squares (OLS) regression method to evaluate both the partial and simultaneous effects of the independent variables on economic growth. The empirical findings reveal that corruption has a negative and statistically significant effect on economic growth, indicating that an increase in corruption tends to reduce Indonesia's economic growth. Inflation also exerts a negative and significant influence on economic growth, suggesting that rising inflation weakens economic performance through declining purchasing power and investment activities. Meanwhile, poverty has a negative but statistically insignificant effect on economic growth, implying that its direct impact was not statistically confirmed during the study period. The study concludes that strengthening anti-corruption measures, maintaining price stability, and improving poverty reduction policies are essential to promoting sustainable economic growth in Indonesia.

Keywords: Economic Growth, Corruption, Inflation, Poverty, OLS

INTRODUCTION

Indonesia's economic growth over the past three decades has been characterized by complex dynamics, with a period of relatively strong expansion but accompanied by structural problems such as persistent corruption, inflationary pressures, and still significant poverty levels. Although Indonesia's GDP continues to increase, the quality of growth and equitable distribution of development results are often questioned due to high income disparities, vulnerability of poor groups, and weak public sector governance.

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Various studies and reports of international institutions show that corruption, price instability, and poverty are not only social problems, but also factors that can hinder productivity, reduce the efficiency of resource allocation, and ultimately lower the rate of long-term economic growth. (Omoniyi, 2018; Beju, Ciupac-Ulici and Bresfelean, 2024; Demmou and Kergozou, 2025; Osuma and Nzimande, 2025). In the context of Indonesia, this issue is becoming increasingly relevant as the country is trying to consolidate its status as an upper-middle-class economy and strengthen competitiveness at the global level, so that a more comprehensive understanding of how corruption, inflation, and poverty interact with GDP is an academic necessity as well as a policy necessity (Pasaribu, 2022; Andini and Pasaribu, 2024).

Theoretically, the relationship between corruption and GDP can be explained through institutional economic frameworks and neoclassical growth theories that emphasize the role of incentives, investment, and resource allocation efficiency. Corruption is seen as a form of distortion that increases transaction costs, weakens legal certainty, and reduces incentives for productive investment, thereby reducing the accumulation of physical and human capital needed to support GDP growth (Oshora *et al.*, 2021; Asri Nur Fadhillah, Nurlina, Salman and Fuadi, 2023).

In the Indonesian context, corruption that occurs in budget management, procurement of goods and services, as well as strategic sectors such as infrastructure and natural resources has the potential to reduce the quality of public spending and hinder the transmission of fiscal policy to GDP growth (Febriani *et al.*, 2023). Corruption can also change the composition of government spending from productive investment to spending that is full of political interests and patronage, so that the fiscal multiplier to GDP becomes lower than it should be (Armelly, Rusdi and Pasaribu, 2021). In addition, corruption weakens the credibility of institutions, including law enforcement agencies and supervisory bodies, thereby reducing investor confidence and increasing state risks, which in turn suppresses foreign and domestic investment flows (Malanski and Póvoa, 2021; Song, Chang and Gong, 2021). Theoretically, corruption is also linked to poverty and inequality, as the poor are relatively more disadvantaged by poor public services and high informal costs, which ultimately lower aggregate productivity and contribute to GDP that is below potential (Pradikta, Pasaribu and Ekaputri, 2024).

The relationship between inflation and GDP is usually explained through classical and modern macroeconomic theories that place inflation as an indicator of price stability and a reflection of monetary and fiscal policies. At moderate and stable levels, inflation can be considered consistent with healthy economic growth, but high and uncontrolled

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inflation incurs large socioeconomic costs, reduce purchasing power, and create uncertainty that hinders investment and consumption decisions (Fatihah and Pasaribu, 2024). In a growth model, high inflation has the potential to disrupt financial intermediation, reduce real savings, and change the structure of interest rates, thereby lowering the capital accumulation and productivity needed to support GDP growth (Pasaribu, Ekaputri and Yefriza, 2023). In developing countries, inflation is often linked to fiscal deficits, monetary financing, and commodity price shocks, so their effects on GDP can be asymmetrical and depend on the capacity of institutions to manage stabilization policies (Wijayanti, 2024).

High post-crisis inflation such as the one that occurred in 1997/1998 and various periods of price pressure due to rising energy and food prices have had a significant impact on household purchasing power, production costs, and income distribution. High inflation hits low-income groups through rising prices of basic necessities, which are not fully offset by an increase in nominal income, thereby lowering real consumption and potentially depressing aggregate output (Mamo, 2012; Tenzin, 2019; Contreras, Ghosh and Hasan, 2023).

In terms of poverty, there is a strong two-way relationship with GDP, as explained in the development literature and welfare economics. On the one hand, high GDP growth has the potential to reduce poverty through increased employment opportunities, increased incomes, and the expansion of public services; On the other hand, persistent poverty can stifle growth due to poor people's limited access to education, health, credit, and infrastructure needed to increase productivity (Pasaribu, 2021). Therefore, understanding the interaction between poverty, corruption, and inflation to GDP can provide insight into the extent to which social and institutional factors influence the path of inclusive economic growth.

Although there are a number of studies that examine the relationship between corruption, inflation, and economic indicators such as poverty or growth in Indonesia, there are still important gaps in the literature that simultaneously link corruption, inflation, and poverty to GDP over a long time horizon. Several studies in Indonesia examined the influence of corruption and inflation perception indices on economic growth or poverty in shorter periods or using a cross-regional panel approach, but not many focused on long-term national time series analysis from 1995 to 2024 with GDP as the main dependent variable. There is also research that focuses on the influence of corruption on poverty or inequality, but the direct relationship between corruption, inflation, poverty, and national aggregate output is still relatively underexplored in one integrated empirical framework.

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In addition, international literature examining corruption and economic growth often uses cross-country or regional samples, such as studies in ASEAN countries, so the results are general and do not always capture the specific characteristics of Indonesia's institutions and macroeconomic dynamics. Thus, there is a need for research that specifically examines Indonesia, utilizes long-term data, and includes poverty variables as important components in the analysis, given their relevance to the quality of growth and equity. This study seeks to fill this gap by analyzing the influence of corruption, inflation, and poverty rates on Indonesia's GDP in the period 1995–2025, so that it is expected to provide a more comprehensive picture of the interaction of these three factors on the path of economic growth.

The period 1995–2025 includes a number of important phases in the Indonesian economy, ranging from the 1997/1998 Asian crisis, political and institutional reforms, the global financial crisis, commodity booms and busts, to the shock of the Covid-19 pandemic and the post-pandemic recovery phase. Each phase carries different implications for the dynamics of corruption, price stability, and poverty, so a long-term analysis of the relationship of these variables to GDP will provide a more complete picture of how various shocks and policy responses affect the path of economic growth. Thus, this research is important not only to fill the domestic literature gap, but also to make an empirical contribution to the global debate on how governance, macroeconomic stability, and socioeconomic conditions affect output performance in developing countries.

By referring to these studies, research on the influence of corruption, inflation, and poverty on Indonesia's GDP for the period 1995–2025 has strong relevance, both in the context of domestic and international literature.

DISCUSSION

The variables studied consisted of one dependent variable, namely Gross Domestic Product (GDP) which is measured based on the annual economic growth rate in percent (%), and three independent variables, namely corruption (CPI), inflation in percent (%), and poverty rate in percent (%). The model of the relationship between variables is formulated with the following equations:

Long-run Model:

$$EG_t = \beta_0 + \beta_1 CORRUPT_t + \beta_2 INFLATION_t + \beta_3 POVERTY_t + \epsilon_t [2]$$

Where:

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- EG_t= development of Indonesia's economic growth quarterly in the period 1995-2025
- $CORRUPT_t$= Indonesia's corruption perception index for the period 1995-2025
- $INFLATION_t$= changes in inflation in the period 1995-2025
- $POVERTY_t$= Indonesia's poverty level in the period 1995-2025

Variables	Coefasia	Std. Error	t-Statistic	Prob.	Remarks
CORRUPT	-0.318251	0.125587	-2.534117	0.0174	Negative and significant effects
INFLATION	-0.279695	0.054258	-5.15489	0	Negative and significant effects
POVERTY	-0.427303	0.264502	-1.615503	0.1178	Negatively but not significantly
C	4.53279	6.844629	3.145941	0.004	Konstanta, signifikan

R-squared	0.75103	75.10% of economic growth variations are explained by variables
Adjusted R-squared	0.723367	The model is still able to account for 72.34% economic growth variation
F-statistic	27.14893	Simultaneously significant models
Prob(F-statistic)	0	Together, independent variables significant effect to economic growth
Durbin-Watson stat	1.510077	Does not show strong autocorrelation

Based on the results of the regression estimates presented in Table 1, it is known that the variables corruption (CORRUPT), inflation (INFLATION), and poverty (POVERTY) are used to explain the variation in economic growth. The estimation results show that the model has a fairly good ability to explain the relationship between independent variables and dependent variables. In general, the values of the

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determination coefficient (R^2), simultaneous test (F-test), and partial test (t-test) indicate that the constructed model is suitable for use as a basis for analysis.

The regression equations obtained from the estimation results are as follows:

Economic Growth = 4.53 − 0.31CORRUPT − 0.27INFLATION − 0.42POVERTY

The equation shows that if all independent variables are zero, then economic growth is estimated at 4.532790 percent. Furthermore, each coefficient shows the magnitude of the change in economic growth due to a change in one unit in each independent variable assuming that the other variable remains (ceteris paribus).

The estimation results showed that the CORRUPT variable had a coefficient of -0.318251 with a probability value of 0.0174, which was smaller than the significance level of 5% (0.05). This shows that corruption has a negative and significant effect on economic growth. A negative coefficient of -0.318251 indicates that every increase in one unit of the corruption index will reduce economic growth by 0.318 percent, assuming other variables remain the same. On the contrary, a decrease in the level of corruption will have a positive impact on increasing economic growth.

These findings indicate that corrupt practices are one of the main obstacles to economic development. Corruption causes inefficiencies in the management of the state budget, reduces the effectiveness of public spending, increases investment costs, and lowers the confidence of domestic and foreign investors. As a result, economic activities become less productive so that economic growth slows down. In addition, corruption also reduces the quality of public services and hinders infrastructure development because part of the budget that should be used for development is misused. In the long run, these conditions will reduce national productivity and widen economic disparities.

The results of this study are in line with the theory of institutional economics which states that good institutional quality is an important prerequisite for sustainable economic growth. Countries with low levels of corruption generally have better bureaucratic efficiency so that they are able to create a conducive investment climate and encourage increased economic activity. These findings are also consistent with various empirical studies that state that corruption has a negative impact on economic growth because it hinders investment, decreases productivity, and reduces the effectiveness of government policies.

The INFLATION variable has a coefficient of -0.279695 with a probability value of 0.0000. A probability value much smaller than 0.05 indicates that inflation has a negative and significant effect on economic growth. A coefficient of -0.279695 indicates that any increase in inflation of one percent will reduce economic growth by about 0.280 percent,

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assuming other variables remain the same.

These results show that high inflation is one of the factors that hinder economic growth. Rising inflation causes people's purchasing power to decrease because the prices of goods and services have increased in general. The decline in purchasing power will reduce household consumption, which is one of the largest components in the formation of Gross Domestic Product (GDP).

In addition to reducing public consumption, high inflation also increases uncertainty in the business world. Business actors have become more cautious in making investments because it is difficult to predict production costs and profits in the future. As a result, business expansion has been delayed and the creation of new jobs has slowed down.

On the other hand, high inflation is often followed by rising interest rates as monetary policy to control inflationary pressures. Rising interest rates cause borrowing costs to become more expensive, so private sector investment decreases. The decline in investment eventually had an impact on the slowdown in economic growth.

The findings of this study support the macroeconomic theory that high and uncontrolled inflation will hinder economic growth. Moderate inflation can indeed boost economic activity, but when inflation exceeds the optimal limit, the impact becomes counterproductive to economic development.

Thus, the results of this study show that price stability is an important factor in maintaining the sustainability of economic growth. Therefore, inflation control policies through fiscal and monetary policy coordination are indispensable.

The POVERTY variable has a coefficient of -0.427303 with a probability value of 0.1178, which is greater than the significance level of 5%. This shows that poverty has a negative relationship, but it does not have a significant effect on economic growth.

The negative coefficient indicates that theoretically an increase in the poverty rate tends to reduce economic growth. Every one percent increase in the poverty rate is estimated to reduce economic growth by 0.427 percent. However, since these effects are not statistically significant, it cannot be concluded that changes in poverty levels directly affect economic growth in the study period.

The insignificance of the influence of poverty can be caused by several factors. First, economic growth is not always enjoyed equally by all levels of society. A country can experience high economic growth, but the benefits are only felt by certain groups of people so that the poverty rate does not undergo significant changes.

Second, various social assistance programs, government subsidies, and social protection policies can reduce the negative impact of poverty on economic activity so that

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the direct relationship between poverty and economic growth becomes less statistically visible.

Third, economic growth is also influenced by various other factors such as investment, international trade, quality of human resources, technological advancement, political stability, and institutional quality. These factors can have a more dominant influence than the poverty rate.

Although not significant, the negative direction of the relationship still shows that poverty reduction has the potential to contribute to increasing economic growth through increased labor productivity, household consumption, and the quality of human resources.

The R-squared value of 0.751030 shows that 75.10% of the variation in economic growth can be explained by the variables of corruption, inflation, and poverty contained in the research model. Meanwhile, the remaining 24.90% is explained by other variables that are not included in the model, such as investment, government spending, education level, infrastructure quality, international trade, technological developments, labor, political stability, and other external factors. The results of the simultaneous test showed an F-statistic value of 27.14893 with a Prob(F-statistic) of 0.0000. Since the probability value is smaller than the significance level of 5% (0.05), it can be concluded that the variables of corruption, inflation, and poverty together have a significant effect on economic growth.

CONCLUSION

Corruption has a negative and significant effect on economic growth. The results of the study show that an increase in the level of corruption leads to a decrease in economic growth. Therefore, efforts to eradicate corruption are one of the important factors in encouraging sustainable economic growth. Inflation has a negative and significant effect on economic growth. These results show that price stability is one of the main prerequisites in maintaining the sustainability of economic growth. Poverty has a negative but not significant effect on economic growth. Although the direction of the relationship suggests that increased poverty tends to decrease economic growth, the effect is not statistically significant. However, simultaneously, corruption, inflation, and poverty have a significant effect on economic growth.

The government needs to continue to strengthen efforts to prevent and eradicate corruption through increasing transparency, accountability, digitizing public services, and strengthening supervision of state financial management. Good governance is expected to be able to increase the efficiency of budget use and create a more conducive investment climate so that it can encourage economic growth. In addition, the government and the

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central bank need to maintain inflation stability through fiscal and monetary policy coordination. Inflation control can be carried out through strengthening food security, maintaining the smooth distribution of goods, and ensuring the availability of strategic commodity supplies so that people's purchasing power is maintained.

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