ABSTRACT

POLICY EFFECT ANALYSIS OF GOVERNMENT BOND ISSUANCE ON INVESTMENT IN INDONESIA

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Technological development and advancement of human culture and social relationships are contributing factor of human needs improvement, so that increase the activities and the role of government in each country to facilitate. To fund all activities that are so complex, Indonesia government deficit in terms of financing state expenditure. Deficit problem faced by government is covered by domestic debt. This debt can be a bond issued by the government as the financing to cover budget deficit. The purpose of this study was to determine how policies influence the issuance of government bonds to investment. The model of analysis in this study are the ECM model (Short Term), OLS model (Long Term) and descriptive analysis method.

The result of research by using ECM model shows that in the short-term government bond has negative effect and no significant on investment. But after estimated using OLS model, estimation result indicates in the long-term, the variable of government bond has negative effect and significant effect on investment. This prove that the phenomenon will occur in accordance crowding out effect theory on investment. And in the long term, the issuance policy of government bond is to cover the budget deficit will result in decreasing investment.

Key words: Budget deficit, investment, government bonds, crowding out, Error Correction Model (ECM), Ordinary Least Square (OLS).