



**ANALYSIS OF THE DETERMINANTS OF FOREIGN DEBT SUSTAINABILITY IN
THE ASEAN REGION IN TERMS OF ISLAMIC ECONOMIC PERSPECTIVE
(PANEL DATA ANALYSIS FOR THE PERIOD 2013-2022)**

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Abstract

Foreign debt has become a phenomenon of financing funds sourced from abroad, without exception in the Asean (Association of Southeast Asian Nation) region, where these countries cooperate in the fields of socio-culture, politics, and economy. Apart from being a form of cooperative relationship, capital funding from abroad also plays an important role as a source of capital for countries that are carrying out economic development, including countries that have high natural resource potential and have a large population in the Asean region. There are several factors that can cause the amount of external debt to increase or decrease. In addition to economic growth and inflation, the exchange rate factor of a country's currency is also closely related to foreign debt. When there is a weakening of the exchange rate, foreign debt obligations also increase. The type of research used is quantitative research. The method used in this research is multiple regression with a panel data approach, the research period is from 2013 - 2022. The best model chosen uses the REM (Random Effect Model) model. The results showed that external debt is significantly affected by monetary policy in Asean countries. In terms of financing state development, external debt is viewed from two Islamic perspectives. The first view allows budget shortfalls to be covered through external financing that is customized and does not contradict sharia rules and principles.

Keywords: Foreign Debt, Monetary Policy, ASEAN Region, Islamic Economy

A. Introduction

Every country needs a source of funding to improve the welfare of its people so that the need for funds is very crucial as a driver of national development.

Unfortunately, each country has different sources of revenue depending on each country's system (Junaedi, 2018). So that to continue to develop the country in a sustainable manner requires a lot of capital, so that the request for funds from external parties has become one of the options for countries, which is often known as foreign debt (Rudi and Rotinsulu, 2016).

The phenomenon of financing funds sourced from external sources also not only occurs in Indonesia, but also occurs in neighboring countries, namely countries in the Southeast Asian region or its association known as ASEAN countries (Association of Southeast Asian Nation), where these countries cooperate in socio-cultural, political and economic affairs (Mohd Daud, 2012). Aside from being a form of cooperative relationship, capital funding from abroad also plays an important role as a source of capital for countries that are carrying out economic development, including countries that have high natural resource potential and have a large population in the ASEAN region (Tchereni and Ndovi 2014).

Financing through external debt is essential for development, but poor debt management can be detrimental to economic growth. External debt is only part of a country's overall debt, whether it is government or private debt. This source of funding is supported by international financial institutions and foreign governments. In times of recession, developing countries have a large dependency on foreign debt, this dependency is greater for countries with high levels of foreign debt (Sheng X S and Sukai 2012).

There are several factors that can cause an increase or decrease in the amount of foreign debt, such as economic growth variables. The impact of foreign debt accumulation can be seen from the Asian financial crisis in 1997, which was also experienced by countries in ASEAN (Daud 2014). Not all countries can achieve economic growth at the expected level. There are several factors that drive and inhibit economic growth. There are three factors that affect the economic growth of a country, namely: (1) capital accumulation; (2) population growth; and (3) technological progress. The three factors can be associated with several indicators that affect it, such as inflation, exchange rates, investment, and labor (Todaro & Smith 2012)

Foreign debt not only plays a role in increasing economic growth, but can also trigger inflationary conditions. High inflation conditions can have a negative impact on economic growth (Mauliana & Surjani 2020). In addition to economic

growth and inflation, a country's exchange rate factor is also closely related to foreign debt. When there is a weakening of the exchange rate, foreign debt obligations also increase. Exchange rate shocks do cause significant changes in inflation. There is also evidence of asymmetric effects of exchange rate shocks in Singapore, the Philippines, and Indonesia. Oil price shocks are the most crucial factor that has a major impact on inflation in ASEAN-5 countries (Pham & Huynh 2020).

In the perspective of Islamic Economics, government foreign debt can be classified as debt containing Riba Nasi'ah. The current government foreign debt that ensnares Indonesia is caused by the interest burden that occurs due to the deferral of payment and debt in the form of foreign currency. So the government is forced to go into debt again to cover the old foreign debt by adding new foreign debt. This debt can be classified into Riba Nasi'ah, which is usury in debt and credit transactions in which it is required that there is an addition taken by the party providing the loan in the form of debt with additional time.(Winda Afrreyenis 2016).

Table 1.1 Total Foreign Debt of the ASEAN Region for the Period 2021 - 2022

2021	Indonesia	416471
2022	Indonesia	435698
2021	Malaysia	9675432
2022	Malaysia	9345248
2021	Singapura	2378967
2022	Singapura	2596756
2021	Thailand	210982
2022	Thailand	225675
2021	Philpines	106428
2022	Philpines	1117865
2021	Brunei Darusalam	2345672
2022	Brunei Darusalam	2597687
2021	Myanmar	13927
2022	Myanmar	14564
2021	Laos	102134
2022	Laos	1023478
2021	Vietnam	136213
2022	Vietnam	146568
2021	Kamboja	19209321
2022	Kamboja	22885723

2021	Timor Leste	2786
2022	Timor Leste	2976

Source: World Bank, 2023 data processed

From the data above, it can be concluded that ASEAN countries that have foreign debt for the last 2 years are Singapore, Malaysia, Indonesia and Cambodia, this foreign debt is used for development in countries in the ASEAN region.

Based on the description previously described, the researcher aims to analyze the determinants of the sustainability of foreign debt foreign debt in the ASEAN region in the Islamic Economic Perspective in the period 2013 - 2022. This study uses monetary policy instruments and economic growth, namely exchange rate inflation and GNP as determinants of foreign debt in the ASEAN region. The objective to be achieved through this research is to analyze the determinants of foreign debt sustainability in the ASEAN region.

B. Reasearch Methods

This study applies multiple regression analysis methods to analyze the Determinants of foreign debt in the ASEAN region for the period 2013 - 2022. Researchers use monetary policy where the policy instruments are inflation and exchange rates and macroeconomics such as economic growth seen from the value of GNP. Data sourced from the World Bank, Bank Indonesia and related agencies.

In the estimation method, the multiple regression model in the study is :

$$Y = \alpha + b_1 X_{1it} + b_2 X_{2it} + \dots + e$$

Description:

Y = Dependent variable (ULN)

α = Constant

X1 = Independent variable 1 (Monetary Policy)

X2 = Independent variable 2 (GNP)

b(1,2,...) = Regression coefficient of each independent variable

e = Error term

t = Time

i = Interval

In this study using panel data, three panel data approaches can be carried out, namely, Common Effect Model (CEM), Fixed Effect Model (FEM), Random Effect Model (REM), and partial testing.

Table 2 Variable Description

Variable Name	Description	Unit
External Debt	External Debt stocks concessional (DOD/ current US\$)	Dollars Per Year
Monetary Policy	Exchange Rate & Inflation	Percent (%)
Economic Growth	GNP	Dollars Per Year

C. Results and Discussion

Based on the results of research on the determinants that affect foreign debt in the ASEAN region in the 2013-2022 period. Using hypothesis testing.

1) Chow Test

To make the right model in this study, the Chow Test can be used. This test is used to choose between the CEM or FEM model, the results are as follows:

Effects Test	Statistic	d.f.	Prob.
	151.27375		
Cross-section F	9	(10,97)	0.0000
	309.00270		
Cross-section Chi-square	3	10	0.0000

Source: Data processed by the author, 2024

From the above results it is known that the Prob.0.0000 value <0.05 . Then the Chow Test results state that the right model is the Fixed effect model (FEM).

2) Hausman Test

The Hausman test can be defined as a test to choose whether the most appropriate FEM OR REM model is used. The results are as follows:

Test Summary	Chi-Sq.		
	Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.345297	2	0.1139

Source: Data processed by the author, 2024

In this study, it shows that REM is the best result in this study where the data model is more inclined to Cross Section, then the panel test uses a random effect model to see the cross section random effect which is the value of the C coefficient in each region.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.101046	1.958124	4.647841	0.0000
LOG(KEBIJAKAN_MONETER)	0.377058	0.101110	3.729171	0.0003
LOG(GNP)	0.240934	0.161408	1.492708	0.1385

Source: Data processed by the author, 2024

The test results show that the hypothesis "Monetary Policy on Foreign Debt" produces an F-statistic value of 0.388095 and a probability value of 0.0002, so it can be said that there is a significant increase between the Determinant variables of Foreign Debt.

Inflation in each ASEAN member country is relatively stable with the highest inflation is Myanmar, and the lowest is Brunei Darusalam. The exchange rate with the usd dollar among ASEAN countries also shows a fairly stable value within the observation period.

Thus, monetary policy towards external debt in the ASEAN region is used to circulate the money supply and suppress inflation so that the price of goods does not increase.

On the other hand, in the hypothesis "GNP on Foreign Debt" produces an F Sttastic Value of 0.261307 with a Probability Value of 0.1326", it can be said that it rises insignificantly between the Determinant variables of Foreign Debt.

If the higher the external debt/GDP ratio, the weaker a country's ability to pay its debts, this occurs because the speed of increase in sources of funds or domestic gross domestic product cannot keep up with the increase in debt. This results in a worsening of capital scarcity and a further reduction in resources available for domestic investment, leading to a fall in the level of capital formation in the ASEAN region. A high external debt/GDP ratio leads to speculation that encourages capital to flow out of the country.

In terms of financing state development, external debt is viewed from two Islamic perspectives. The first view allows for budgetary shortfalls to be covered through customized external financing that does not contradict sharia regulations and principles. This is due to the fact that cooperating with other parties in a business is something that is justified and even encouraged in history. As is the case with mudharabah, musyarakah, and murabahah contracts, it can be included in the state budget as a source of external financing.

Compared to debt, equity participation is seen as more constructive, proportional and fair in financing, because there is profit-loss sharing. Then for the second view, the state is not allowed to cover the budget deficit by taking on foreign debt. Because of the preventive consideration that the foreign debt loan mechanism uses an interest system, whereas in Islam, interest in any form of consumption or production and large or small is strictly prohibited.

D. Conclusion

- The Random Effect panel data regression model was chosen as the best panel data regression model to determine the determinants of ASEAN region foreign debt sustainability in terms of Islamic economic perspective.
- The results of the model fit test conclude that monetary policy affects external debt in the 2013-2022 observation.
- The higher the external debt/GDP ratio, the weaker a country's ability to pay its debts, this occurs because the speed of increase in sources of funds or domestic gross domestic product cannot keep up with the increase in debt. This results in a worsening of capital scarcity and a further reduction in resources available for domestic investment, leading to a fall in the level of capital formation in the ASEAN region.
- One way to support state financing in certain situations is through debt. In general, Islam does not prohibit debt. However, to avoid being trapped in ribawi practices, Islam regulates the mechanism of debt.
- One of them is by implementing a contract mechanism that follows sharia principles. Debt is justified because debt actually contains an element of helping.

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