THE EFFECT OF GOVERNMENT INVESTMENT AND HOUSEHOLD CONSUMPTION ON GRDP IN 34 PROVINCES IN INDONESIA

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ABSTRACT

This study aims to determine the effect of government investment and household consumption on GRDP in 34 provinces in Indonesia. In this study, the government investment variable focuses on physical investment while the household consumption variable consists of food and non-food consumption. This study uses a combination of cross section data with time series in 34 provinces in Indonesia during 2014-2023. The data analysis method used is Panel Data Regression. The results of this study prove that Government Investment Expenditure and household consumption have a positive and significant effect on GRDP in 34 provinces in Indonesia.

Keywords: Government Investment, Household Consumption and gross regional domestic product

1. INTRODUCTION

The development of economic activity in a region can be seen through economic growth indicators. At the regional level, the appropriate measure for assessing economic growth is Gross Regional Domestic Product (GRDP) Nurhasanah et al., (2024). GRDP describes the extent to which a region is able to manage and utilize its resources.

GRDP is an important measure in economics that shows the total value added from all business activities, or can also be interpreted as the total value of final goods and services produced in a region. GRDP is usually used to see the extent to which economic development in the region has been successful in a certain period. By using GRP based on constant prices, we can calculate economic growth and use it as a basis for planning future development policies (Patanduk, Rumate, and Naukoko 2019).

GRDP shows a region's ability to manage its natural resources and production factors, so its value differs in each region (Bancin and Usman 2020). GRDP is also used to observe economic growth and structure, as well as to determine the most contributing sectors. The higher the GRDP, the more advanced the economic development of a region, while a low value reflects an economic slowdown (Wida and Saharuddin 2022).

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Based on data from BPS, from 2019 to 2023, DKI Jakarta will be the region with the highest GRDP, amounting to 205,046,597,018 billion rupiah. Conversely, Gorontalo will have the lowest GRDP, amounting to 31,677,601.52 million rupiah. In terms of economic growth, not all provinces followed the national growth trend. Only a few regions followed the fluctuations in national economic growth. These provinces were North Sumatra, West Java, Central Java, East Java, Banten, East Kalimantan, South Sulawesi, Lampung, South Sumatra, and Riau.

The success of economic growth in a region can be influenced by the amount of investment, where an increase in the output of a country/region will increase that growth due to various factors. While developed countries rely more on production and investment in goods and services, developing countries need investment to play an essential supporting role in achieving more developed economic growth (Sanjani and Sari 2024).

Investment is one of the main factors that influence the GRDP value of a region. Through investment, capital is used to produce goods and services, which directly supports regional economic growth (Febrianto and Arifin 2025). The influx of investment will drive economic activity, create more jobs, and ultimately increase income and community welfare.

Government investment, according to Government Regulation No. 58 of 2005, focuses on the use of fixed assets acquired through capital expenditure. Therefore, in this study, the variable of government investment uses capital expenditure data. Capital expenditure is expenditure for the purchase or procurement of fixed assets such as land, equipment, buildings, and others that can be used for more than a year for government activities (Waryanto 2017).

Based on the above definition, it can be concluded that government investment, which is the focus of this study, specifically refers to physical investment. This investment includes the construction and repair of infrastructure such as roads, bridges, and transportation systems, as well as the procurement of other long-term physical assets, including land, buildings, and public facilities. Thus, this study focuses on the allocation of government funds to create physical capital that forms the foundation for economic growth.

One economic development theory that is still relevant today is the Harrod-Domar theory of savings and investment. This theory concludes that economic growth is determined by high savings and investment. If savings and investment are low, then the economic growth of a country or region will also be low, and vice versa (Kurniawan 2016).

Based on data from Statistics Indonesia, government investment experienced unstable growth from 2019 to 2023. The highest government investment was achieved by the province of DKI Jakarta at 13,703,221,171 billion rupiah, while the lowest investment was in the province of

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Gorontalo at 218,803,282 million rupiah. Increased government investment can boost the growth rate of the GRDP. However, in 2020, when government investment declined, the GRDP actually increased. Most provinces experienced the same phenomenon, namely that when government investment increased, the GRDP declined, and vice versa, except in the provinces of West Sumatra, Riau, Jambi, Lampung, and Central Java.

This interesting phenomenon, where an increase in government investment does not always go hand in hand with an increase in GRDP, and sometimes even runs counter to it, as was the case in 2020, can be explained by several complex factors. The decline in government investment in 2020 was caused by budget reallocation for handling the COVID-19 pandemic, where the focus shifted to government consumption spending and social assistance, which directly boosted people's purchasing power and household consumption, which are significant components of GRDP. Meanwhile, provinces such as West Sumatra, Riau, Jambi, Lampung, and Central Java may have a more resilient economic structure or government investment that is more targeted, thus showing a more direct correlation.

Research conducted by Patanduk et al. (2019) found that government investment had a positive and insignificant effect on the GRDP of North Sulawesi province. Research conducted by Febrianto & Arifin (2025) found that government investment has a positive and significant effect on the GRDP in Central Java. Research conducted by Salma Athilla & Aida (2025) found that investment has a positive and significant effect on the GRDP in Indonesia. Widiyarto (2024) found that investment has a positive and significant effect on the GRDP in Central Java province. Research conducted by Sieskawati et al. (2024) shows that investment has a positive and significant effect on the GRDP in Jambi province.

In addition to government investment, household consumption can also affect GRDP. Sukirno (2012) states in his book that household consumption expenditure, also known as household consumption in macroeconomics, is the total value spent by households to purchase the goods and services they need during a year.

According to the main view of Keynesian theory, which argues that aggregate expenditure, namely public spending on goods and services, is the main factor determining the level of economic activity achieved in a region (Sukirno 2015), this means that when household consumption increases, regional economic growth will also increase.

Based on data from Statistics Indonesia, household consumption increased from 2019 to 2023. The highest household consumption was achieved by DKI Jakarta province at 1,198,581,085.77 billion rupiah, while the lowest was in North Kalimantan province at

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11,085,174.54 million rupiah. As household consumption expenditure aimed at improving people's welfare increases, so too will the rate of growth in Indonesia's gross regional domestic product (GRDP). However, a phenomenon was observed in 2020 whereby a decline in household consumption expenditure was accompanied by a decline in GRDP growth. Most provinces experienced the same phenomenon. However, there were exceptions in several provinces. In Bengkulu, Riau Islands, Central Kalimantan, Gorontalo, West Sulawesi, and West Papua provinces, a different phenomenon occurred, namely that when household consumption increased, GRDP actually decreased. Meanwhile, in Central Sulawesi and North Maluku provinces, the opposite phenomenon occurred, namely that when household consumption decreased, GRDP actually increased.

The phenomenon between household consumption and GRDP, which is not always in the same direction and sometimes even opposite in some provinces, reflects complex economic dynamics. The decline in household consumption in 2020, which was in line with the decline in GRDP in most provinces, can be explained by the impact of the COVID-19 pandemic and social restrictions that have suppressed economic activity and people's purchasing power. However, in provinces such as Bengkulu, Riau Islands, Central Kalimantan, Gorontalo, West Sulawesi, and West Papua, the increase in household consumption accompanied by a decline in GRDP may be an indication of inflation driving the nominal value of consumption without an increase in real volume, or a significant decline in other GRDP components such as investment and exports. Conversely, in Central Sulawesi and North Maluku, the decline in household consumption accompanied by an increase in GRDP is most likely due to a surge in production and exports from the dominant mining sector, or large-scale investment in this sector that has boosted overall GRDP, even though the benefits have not yet been fully felt at the level of local household consumption.

Research conducted by Salsa Bila Puspandhari & Syamsul Huda, (2023), found that household consumption has a positive and significant effect on the GRDP in East Java. Research conducted by Wida & Saharuddin (2022) found that household consumption has no effect on the GRDP in North Sumatra province. Research conducted by Efendi & Rachmawati (2024) found that household consumption has a positive and significant effect on the GRDP in East Java. Research conducted by Christono & Putri (2021) found that household consumption has a positive and significant effect on GRDP in DKI Jakarta province. Liow et al. (2022) stated that household consumption has a positive and significant effect on GRDP in North Sulawesi province.

This study is novel in that it examines the influence of government investment and household consumption on GRDP in 34 provinces in Indonesia. Previous studies tended to

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separate the two variables. This study differs from previous studies in that it determines independent variables that are not the same as those in previous studies.

2. LITERATURE REVIEW

2.1 Gross Regional Domestic Product

According to Sukirno (2015), GRDP is defined as the total gross value added generated by all economic activities in a region within a certain period (usually one year). He emphasizes that GRDP measures regional output without distinguishing the ownership of production factors, so that GRDP focuses on the location of production.

2.2 Government Investment

In economic theory, investment is defined as expenditure to purchase capital goods and production equipment. The goal is to replace, and especially add to, capital goods in the economy, which will be used to produce goods and services in the future. In short, investment is spending to increase the production capacity of an economy (Rahardja and Manurung 2008).

According to Harrod Domar, in order for all available capital goods to be fully utilized, aggregate demand must increase by the amount of the increase in the capacity of tangible capital goods as a result of past investment. This means that to ensure economic growth, investment must continue to increase from year to year. If this is not the case, economic growth will slow down and may even face a recession.

2.3 Household Consumption

In economics, consumption theory analyzes how individuals or households meet their needs through the purchase of goods and services. Public spending on basic necessities, such as food and clothing, is an example of consumption. Goods produced for final consumption are called consumer goods (Machmud 2016).

Keynesian theory states that government spending and household consumption decisions greatly influence economic behavior in both the short and long term. In the short term, consumption plays a role in determining aggregate demand, while in the long term, consumption plays a major role in economic growth (Mankiw 2006).

3. METHODOLOGY

3.1. Data Analysis Method

This study is a quantitative study that uses time series data, where the data used is real GRDP based on constant prices and household consumption data, while government

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investment uses capital expenditure data. The data used in this study is from the 2014-2023 period. The data analysis method used in this study is panel data regression, which is a method used to model the effect of independent variables on dependent variables in several sectors observed from a research object over a certain period of time. This study uses secondary data sourced from Statistics Indonesia (BPS).

3.2. Panel Data Regression Model

Panel data was chosen because this study uses a time span of several years and also several provinces. First, time series data was used because this study uses a time span of 10 years. Then, cross-section data was used because the researcher collected data from 34 provinces in Indonesia.

The model used in this study is described in the following function:

$Y = a + bx1 + bx2 + e$.....(1)

$GRDP_{it} = \beta_0 + \beta_1 GI_{it} + \beta_2 HC_{it} + e_{it}$.....(2)

Logarithmic transformation in panel data regression is used to overcome non-linearity, reduce heteroscedasticity, and stabilize data variance, thereby making the model more valid and efficient. In addition, this transformation allows the interpretation of regression coefficients as changes in percentage form, which is very useful in economic analysis or large-scale data. The use of logs also helps to deal with extreme outliers and facilitates the analysis of growth over time in panel data. Therefore, in this study, all data on each variable has been transformed into logarithmic form.

Log$GRDP_{it} = \beta_0 + \beta_1 LogGI_{it} + \beta_2 LogHC_{it} + e_{it}$.....(3)

Dimana :

GRDP = Gross Regional Domestic Product

GI = Government Investment

HC = Household Consumption

β_0 = General constant

β_1, β_2 = Regression coefficients of each independent variable

e = Error term

3.3. Panel Regression Model Estimation Methods

1. Common Effect Model (CEM)

   The common effect model is the simplest panel data model approach because it only combines time series and cross-sectional data (Sihombing et al. 2024).

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2. Fixed Effect Model (FEM)

   This model assumes that differences between individuals can be accommodated by differences in their intercepts. To estimate panel data, the Fixed Effects model uses the dummy variable technique to capture differences in intercepts between companies, which may occur due to differences in work culture, management, and incentives. However, the slope is the same between companies. This estimation model is often referred to as the Least Squares Dummy Variable (LSDV) technique.

3. Random Effect Model (REM)

   This model estimates panel data where disturbance variables may be correlated between time and between individuals.

3.4 Panel Data Model Selection Test

1. Chow Test

   The Chow test is used to compare the Common Effect Model and the Fixed Effect Model, determined based on the Chi-Square statistic. If the probability of the Chow test result is greater than 0.05, then the CEM is selected, but if the probability of the Chow test result is less than 0.05, then the FEM is selected.

2. Hausman Test

   The Hausman test serves to compare the Fixed Effect Model and the Random Effect Model. The Hausman test can be performed if the Chow Test shows a Cross-section Chi-square probability value of less than 0.05. If the probability of the Hausman test result is greater than 0.05, then REM is selected, but if the probability of the Hausman test result is less than 0.05, then FEM is selected. In cases where the Chow test and Hausman test results select FEM, it is not necessary to continue with the Lagrange Multiplier test (Kosmaryati et al., 2019).

3. Lagrange Multiplier Test

   The Lagrange Multiplier Test serves to compare the Random Effect Model and the Common Effect Model. The Lagrange Multiplier Test can be performed if the probability value of the Cross section Chi-square from the Lagrange Multiplier Test is less than 0.05. If the probability of the Lagrange Multiplier Test result is greater than 0.05, then CEM is selected, but if the probability of the Chow Test result is less than 0.05, then REM is selected.

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3.5 Classical Assumption Test

In the use of panel data regression, it is the Best Linear Unbiased Estimator (BLUE), meaning the best model of the regression model obtained from the ordinary least squares method, commonly referred to as Ordinary Least Squares (OLS). Therefore, normality testing is not required, considering that normality testing is not a requirement for the Best Linear Unbiased Estimator (BLUE). Only two classical assumption tests are required, namely multicollinearity and heteroscedasticity tests, while autocorrelation testing is not required because autocorrelation can only occur in time series data (Basuki and Prawoto 2016).

According to (Ghozali and Ratmono 2017) in their book, we can ignore the normality test if we have a large sample size. (Azhari 2016 in Luas et al., 2021) also states that there are no classical assumption tests in panel data research, especially when using secondary panel data with samples from more than one company, so it is recommended not to perform a normality test. The autocorrelation test is only intended for time series research, so there is no autocorrelation test in panel data. Furthermore, according to Gujarati and Porter (2009), because this study uses more than 100 observations, it can be said that all data are normally distributed, in accordance with the Central Limit Theorem assumption. This theory states that if the number of observations is more than 100, a normality test is not necessary. This study uses a determination test and a correlation test.

4. RESULTS AND DISCUSSION

4.1 Result

Results Of Panel Data Regression Analysis

1. Chow Test Results

Penelitian ini dengan membandingkan antara nilai probabilitas cross-section F dengan α = 0,05 (5%). Hipotesa dalam pengujian ini adalah sebagai berikut: H0 : Common Effect Model. Prob. Cross-section F > α = 0,05 (5%). H1 : Fixed Effect Model. Prob. Cross-section F < α = 0,05 (5%). Adapun hasil uji chow dalam penelitian ini sebagai berikut :

This study compares the cross-section F probability value with α = 0.05 (5%). The hypotheses in this test are as follows: H0: Common Effect Model. Prob. Cross-section F > α = 0.05 (5%). H1: Fixed Effect Model. Prob. Cross-section F < α = 0.05 (5%). The results of the Chow test in this study are as follows:

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Table 1
Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	57.904524	(33,304)	0.0000
Cross-section Chi-square	675.210061	33	0.0000

Source: Data Processing Results (2025)

Based on Table 1 of the Chow Test results above, it can be seen that the probability value for cross-section F is 0.0000, which means that this value is smaller than α = 0.05 (5%). From these results, it can be concluded that H0 is rejected and H1 is accepted, so that the appropriate model for panel data regression in this study is the Fixed Effect Model (FEM).

2. Hausman Test

The Hausman test is conducted by comparing the cross-section random probability value and α = 0.05 (5%). The hypotheses in this test are as follows: H0 : Prob. cross-section random > α (0.05) = Random Effect Model H1 : Prob. cross-section random < α (0.05) = Fixed Effect Model.

Table 2
Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	237.253724	2	0.0000

Source: Data Processing Results (2025)

Based on Table 2 of the Hausman test results above, it can be seen that the probability value in the cross-section random is 0.0000, which means that the value is smaller than α = 0.05 (5%). From these results, it can be concluded that H0 is rejected and H1 is accepted, so that the appropriate model for panel data regression in this study is the Fixed Effect Model. The Lagrange Multiplier test is performed if the model selected from the Chow test is the Common Effect Model (CEM). Since the model selected from the Chow test and the Hausman test is the Fixed Effect Model, the Lagrange Multiplier (LM) test is no longer necessary in this study (Kosmaryati et al. 2019).

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Classical Assumption Test

The Multicollinearity Test is part of the classical assumption test used to examine the correlation between one independent variable and another independent variable. This can be determined by looking at the centered VIF value from the Variance Inflation Factor (VIF) test. If the VIF value is < 10.00, then the independent variables in this study do not have multicollinearity issues.

Table 3
Multicollinearity Test Results

Variance Inflation Factors
Date: 09/21/25 Time: 16:16
Sample: 1 340
Included observations: 340

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.401501	712.2480	NA
LOG_GI	0.001494	1137.949	1.606676
LOG_HC	0.000563	517.3774	1.606676

Source: Data Processing Results (2025)

1. Heteroscedasticity Test

   This study used the Harvey test, whereby if the Obs*R-Squared probability value > α = 5% or 0.05, then the data is free from heteroscedasticity.

Table 4
Heteroscedasticity Test Results

Heteroskedasticity Test: Harvey

F-statistic	0.813522	Prob. F(2,337)	0.4442
Obs*R-squared	1.633641	Prob. Chi-Square(2)	0.4418
Scaled explained SS	1.582921	Prob. Chi-Square(2)	0.4532

Source: Data Processing Results (2025)

Based on Table 4 above, it can be seen that the probability of Obs*R-Squared is greater than alpha 5% (0.4418 > 0.05). Therefore, this study is free from heteroscedasticity.

Selected Panel Data Model Estimation Results

Table 5
Fixed Effect Model Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.09377	0.733578	27.39147	0.0000
LOG_GI	0.095000	0.023517	4.039709	0.0001
LOG_HC	0.061209	0.024417	2.506845	0.0127

Source: Data Processing Results (2025)

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Based on the output results of panel data regression using the FEM model, it is known that the model can be explained through the following equation:

$$\text{Log}GRDP_{it} = \beta_0 + \beta_1 LogGI_{it} + \beta_2 LogHC_{it} + e_{it}$$

$$\mathbf{LogGRDP_{it} = 20.09377 + 0.095000\ LogGI + 0.061209\ LogHC\ + e_{it}}$$

Based on the regression results in the table above, it can be seen that:

a. The coefficient value (β_0) from the regression results above is 20.094, which means that if the government investment and household consumption variables are zero, the GRDP in 34 provinces in Indonesia will have a constant value of 20.094%.
b. The coefficient value of the government investment variable (β_1) is 0.095. This means that if government investment increases by 1%, the GRDP in 34 provinces in Indonesia will increase by 0.095%, assuming that the household consumption variable remains constant.
c. The coefficient value of the household consumption variable (β_2) is 0.061. This means that if household consumption expenditure increases by 1%, the GRDP in 34 provinces in Indonesia will increase by 0.061%, assuming that the government investment variable remains constant.

Table 6
Partial Test Results (t-test)

Independent variable	t-statistics	t-table	Alpha	Prob	Information
LOG(GI)	4.039709	1.649	0,05	0.0001	Significant
LOG(HC)	2.506845	1.649	0,05	0.0127	Significant

Source: Data Processing Results (2025)

Based on the test results in Table 6 above, the results of this study are as follows:

1. The government investment variable has a t_count > t_table value, namely (4.039 > 1.649) with a probability value at a 5% significance level of (0.0001 < 0.05), meaning that the government investment variable has a positive and significant effect on GRDP in 34 provinces in Indonesia.
2. The household consumption variable has a t_count > t_table value, namely (2.506 > 1.649) with a probability value at a 5% significance level of (0.0127 < 0.05), meaning that the household consumption variable has a positive and significant effect on GRDP in 34 provinces in Indonesia.

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Table 7
Simultaneous Test Results (F Test)

f-statistics	f-table	Prob	Information
428.0708	4.47	0.000000	Significant Influence

Source: Data Processing Results (2025)

Meanwhile, simultaneous testing shows that government investment and household consumption variables have a positive and significant effect on GRDP in 34 provinces in Indonesia. This is evidenced by the value of f_(count) > f_(table), which is 428.0708 > 4.67, and the probability value is less than the alpha value of 5%, which is 0.000000 < 0.05.

Table 8
Determination Coefficient Results (R^2)

R-Squared	0.980113
Adjusted R-Squared	0.977824

Source: Data Processing Results (2025)

The Adjusted R-Squared value in this study is 0.977824. This means that government investment and household consumption have a 97.78% influence on the GRDP of 34 provinces in Indonesia, while the remaining 3.22% is influenced by other variables outside the scope of this study. In this study, the correlation coefficient value was obtained from the root of the R-Square value or $\sqrt{R}$= $\sqrt{0.980113}$ = 0.99. Thus, the relationship between government investment expenditure and household consumption on gross regional domestic product is very strong at 0.99, because the correlation value is close to positive one (+1).

4.2 Discussion

The Effect of Government Investment on GRDP

Based on the results of the research conducted, the government investment variable used in this study has a positive and significant effect on GRDP in 34 provinces in Indonesia. This analysis is in line with the Economic Development Theory proposed by Todaro & Smith (2011), which states that an increase in investment will boost the economy, as indicated by the fact that an increase in investment will trigger

These results are also in line with the initial hypothesis that government investment has a positive and significant effect on GRDP, supported by research by Patanduk et al. (2019) and

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Salma Athilla & Aida (2025), which states that the government investment variable has a positive and significant effect on GRDP.

The Effect of Household Consumption on GRDP

Based on the results of the research conducted, the household consumption variable used in this study has a positive and significant effect on GRDP in 34 provinces in Indonesia. This means that if household consumption increases, GRDP growth in Indonesia will also increase. This analysis is in line with Keynesian theory, which argues that aggregate expenditure, namely public spending on goods and services, is the main factor determining the level of economic activity achieved by a country/region (Sukirno, 2015).

These results are also in line with the initial hypothesis that household consumption has a positive and significant effect on GRDP in Indonesia, supported by research by Salsa Bila Puspandhari & Syamsul Huda, (2023), Efendi & Rachmawati, (2024) and Liow et al., (2022), which state that the household consumption variable has a positive and significant effect on GRDP.

The Effect of Government Investment and Household Consumption on GRDP

Based on the results of simultaneous testing or F-testing, it is known that both independent variables studied, namely government investment expenditure and household consumption, have a significant effect on the dependent variable, namely GRDP. This is evidenced by the F(statistic) value, which is much greater than F(table), namely 428.0708 > 4.67, and the probability value is very small, namely 0.000000, which means it is far below 0.01. This means that when government investment expenditure and household consumption in Indonesia are analyzed simultaneously, the model is able to significantly explain how these two factors affect GRDP fluctuations and growth in 34 provinces in Indonesia.

5. CONCLUSION

Based on the results of the research and discussion in the previous chapter, the conclusions of this study are as follows:

1) The results of the partial testing of the government investment variable show a positive and significant effect on GRDP in 34 provinces in Indonesia
2) The results of the partial testing of the household consumption variable show a positive and significant effect on GRDP in 34 provinces in Indonesia

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3) The simultaneous test results show that government investment and household consumption simultaneously have a positive and significant effect on GRDP in 34 provinces in Indonesia.

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