

ABSTRACT

Today the level of external debt is very high, making a great concern especially for developing countries. The economic crisis caused by debt can potentially at any time which can cause external shocks for these countries. Indonesia as a developing country has experienced an economic crisis caused by external debt in the past. On the other hand, the acceleration of economic development requires a sizeable amount of funds so that Indonesia must find other sources of funds, one of which is external debt. In the last ten years the level of Indonesia's external debt has risen by more than one hundred percent but rate of economic growth has stagnated and even declined in the past decade. This study tries to measure the threshold of Indonesia's external debt to investigate how the impact of external debt on economic growth. The analytical method used in this study is Least Square with quadratic specification to estimate parameters using the data annual 1975-2019. The main findings of this study indicate that the threshold ratio of external debt to GDP of Indonesia is 39,2 percent. These results can provide a warning signal for policymakers to manage external debt well to avoid debt overhang.

Keywords: External Debt, Economic Growth, Debt Overhang, Quadratic