ABSTRACT

Economic growth is an important indicator in assessing the success of a country's development. Indonesia has a relatively low tax ratio compared to ASEAN countries, indicating that the government's fiscal capacity in financing development is still limited. On the other hand, an excessively high tax ratio has the potential to create distortions in economic activities. This condition indicates the existence of a trade-off between tax revenue optimization and economic growth. This study aims to analyze the effect of the tax ratio, squared tax ratio, Non-Tax State Revenue (PNBP), external debt, and investment on Indonesia's economic growth, as well as to determine the optimal level of the Growth Maximizing Tax Ratio (GMTR).

This study employs annual time series data for Indonesia covering the period from 1983 to 2024, obtained from various official sources. The data were analyzed using the Autoregressive Distributed Lag (ARDL) model, which is suitable for variables with mixed integration orders of I(0) and I(1). The analysis begins with stationarity and cointegration tests, followed by estimation of the effect of the independent variables on the dependent variable.

The results show that the Growth Maximizing Tax Ratio (GMTR) theory is confirmed in Indonesia. An increase in the tax ratio is proven to increase economic growth until it reaches the optimal tax ratio level of 15.8 percent. However, after the turning point is reached, a further increase in the tax ratio will reduce economic growth. In addition, investment is proven to have a positive and significant effect on economic growth, while Non-Tax State Revenue (PNBP) has no significant effect, and external debt has a negative and significant effect on Indonesia's economic growth.

Keywords: Economic growth, tax ratio, PNBP, external debt, and investment.