ABSTRACT

Economic growth is one of the important indicators to see the success of a country's development. According to Harrod-Domar, the economic growth supported by investment is a sustainable economic growth. One of the Government policies undertaken to invrease investment is expansive fiscal policy, Indonesia implemented an expansionary fiscal policy in the form of a budget deficit. However, with the implementation of the fiscal budget deficit policy there are two possibilities that can occur, that is crowding-in or crowding-out.

This research aims to analyse how is the impact of fiscal policy on budget deficit and the other macro variables towards national income (GDP) and investment in Indonesia from year 2011Q1 until 2018Q4. It is to prove whether the expansionary fiscal policy on budget deficit results in crowding-in or crowding-out. This research used a symultaneous form and estimated by using the Two Stage Least Square (TSLS) model, in analyzing the data there are 2 models, where in the first model national income role as the dependent variable and in the second model investment role as the dependent variable.

The results of the analysis shows that budget deficit affect national income positively and not significantly, also national income affect positively and significantly the investment. This research conclude that the budget deficit did not cause the effect of crowding-in or crowding-out on investment through national income in Indonesia from year 2011Q1 until 2018Q4 because of the insignificant effect, this is in line with the Ricardian Equivalence theory. Other than that, interest rate affect negatively and significantly the national income, national income in the previous year (GDP-1) affect positively and significantly the national income, and government spending affect positively and significantly the investment.

Keywords : *National Income, Investment, Budget Deficit, Crowding-in, Crowding-out.*