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The Effect Of Foreign Investment And Banking Credit On Economic Growth In East Nusa Tenggara Province

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ABSTRACT

This research aims to analyze the influence of foreign investment and banking credit on economic growth in East Nusa Tenggara Province in the 2021-2023 period. The research method used is quantitative with an explanatory approach, using secondary data in the form of Foreign Direct Investment (FDI) values, total banking credit, and Gross Regional Domestic Product (GRDP). Data analysis was carried out using panel data regression. The research results show that partially the foreign investment variable has a significant influence on economic growth in East Nusa Tenggara, while bank credit has no significant influence. However, foreign investment and banking credit simultaneously influence economic growth even though their contribution is still limited, with an Adjusted R-squared value of 0.030. This indicates that other factors outside research are still more dominant in influencing regional economic growth. These findings indicate the importance of government policy in attracting foreign investment as well as

Keywords: Foreign Investment, Banking Credit, Economic Growth, East Nusa Tenggara

I. INTRODUCTION

Stable and sustainable economic growth is the government's main objective in its efforts to improve the welfare of the people (Manullang et al., 2024). Economic growth can be understood as the growth of economic activities that increase the production of goods and services in society (Rahim et al., 2023). One indicator to encourage economic growth is bank credit, which consists of working capital credit, investment credit, and consumer credit, which has a positive relationship with economic growth in a region. The higher the credit disbursed by banks, the more it will spur economic growth; in this case, the credit disbursed can increase economic growth.

As a financial sector that plays an important role in driving the economic growth of a region, in order to achieve a flexible growth rate, there must be investment and bank credit, which play an important role in driving the economy of a country. Foreign investment has the potential to make a significant contribution to accelerating economic growth. Foreign investment, also known as Foreign Direct Investment (FDI), is seen as the main driver of economic growth that generates profits for developing countries, consisting of domestic capital flows and technology transfers, thereby increasing income (Nadzir & Kenda, 2023). Investment is an important component of economic growth because it can encourage increased production, job creation, and increased productivity. Increased investment can occur through financing from bank credit, which can be used for infrastructure development and industrial development in East Nusa Tenggara, with the aim of determining the value of economic growth (Novi et al., 2023).

The influence of foreign investment and bank credit on economic growth in Indonesia is negative but significant. This suggests that increased foreign investment tends to depress economic growth, possibly due to the outflow of profits that outweighs its positive impacts. Meanwhile, bank credit has a positive and significant impact on economic growth in Indonesia. Increased bank credit distribution significantly contributes to stimulating economic activity, increasing investment, and increasing consumption.(Rostin et al., 2023).

East Nusa Tenggara (NTT) is a province in Indonesia with significant economic potential, particularly in the agriculture, tourism, and fisheries sectors (BPS, 2023). This potential should be a key driver in improving public welfare and accelerating regional economic growth. However, East Nusa Tenggara still faces various challenges in economic development, particularly in terms of minimal investment and limited access to business capital (Basri, 2018). The lack of investment, both domestic and international, and the difficulty in obtaining bank credit are major obstacles for businesses in developing their economic activities (World Bank, 2022).

Foreign investment and bank credit have an important role in supporting the economic growth of a region.(Amalia et al., 2022). Low investment and limited access to capital contribute to slow economic growth in NTT. This is reflected in the province's Gross Regional Domestic Product (GRDP), which is still relatively low compared to other provinces in Indonesia, where economic growth is often used as a general measure to determine the percentage change in GRDP at the provincial, district/city level or the percentage change in GRDP at the national level.

Uneven economic growth results in varying growth capacities due to differences in the characteristics and resource potential of each region, as well as geographical location. Ultimately, these differing growth capacities slow economic expansion. Differences in resources and regional characteristics lead to fluctuations in economic growth. Furthermore, investment and bank credit are needed to support the economy in East Nusa Tenggara, an excellent strategy for achieving dominant production levels in developing countries. Furthermore, East Nusa Tenggara's economic structure is still dominated by the agriculture, fisheries, and tourism sectors, so fluctuations in these sectors significantly impact the rate of regional economic growth.(Olivia & Muhamad, 2011).

Investment and bank credit are essential to accelerate economic growth and improve public welfare. With the right support, East Nusa Tenggara can develop into a new economic hub in eastern Indonesia.(Suryawan & Pratama Indrianto, 2024). Economic conditions and development challenges such as the agriculture and livestock sectors in East Nusa Tenggara have great potential in this sector but still face challenges such as minimal irrigation and dependence on rainfall, as well as low agricultural productivity due to the lack of modern technology. In addition, the tourism sector in East Nusa Tenggara has prime tourist destinations such as Labuan Bajo, Komodo Island, Lake Kelimutu, and the exotic beaches in Sumba Regency.

Bank credit can increase liquidity, support investment, and strengthen key economic sectors in East Nusa Tenggara. The development of bank credit in East Nusa Tenggara can have a positive impact on the region's economic growth. In this context, the development of bank credit contributes positively and significantly to economic growth in East Nusa Tenggara, as seen from several aspects, such as business sector development, increased investment, and increased consumption.

One important aspect that can influence economic growth in East Nusa Tenggara is business sector development. Growth in bank credit can provide easier access to capital for businesses in East Nusa Tenggara. With easier access to capital, businesses can develop and expand their businesses, thus driving overall growth in the business sector.

The growth of banking credit also has an impact on increasing investment in East Nusa Tenggara.(Indayani & Hartono, 2013). It plays a crucial role in driving economic growth in East Nusa Tenggara Province. Bank loans serve as capital for businesses, investment in various sectors, and increase public purchasing power. Based on bank credit data from 2021 to 2023, there has been an increase in the amount of loans disbursed, which has the potential to boost economic growth in East Nusa Tenggara Province.

Low foreign investment in East Nusa Tenggara continues to face challenges in attracting foreign investment compared to other regions in Indonesia. This is due to limited infrastructure, inadequate accessibility, and economic competitiveness that still needs to be improved.(Mahrani, 2023)To increase the attractiveness of foreign investment, local governments need more proactive policies to attract foreign investment, including infrastructure improvements to support leading sectors like tourism and agriculture. Furthermore, there is a credit imbalance, with bank credit disbursed to East Nusa Tenggara being relatively smaller than in other regions, despite the significant potential of the agriculture, fisheries, and tourism sectors.

Banks tend to be more selective in disbursing credit due to perceived higher economic risks, necessitating expanded access to bank credit to increase credit distribution with more flexible schemes for Micro, Small, and Medium Enterprises (MSMEs) and potential sectors in East Nusa Tenggara. The role of Regional Development Banks (BPD) and special credit schemes can be a solution to accelerate economic growth. By strengthening foreign investment and access to bank credit, East Nusa Tenggara can develop a locally resource-based industrial sector to reduce dependence on traditional sectors and increase sustainable economic growth.

Foreign direct investment (FDI) and bank credit are the main drivers of economic growth in East Nusa Tenggara (NTT). Although NTT has significant potential in the agriculture, tourism, and fisheries sectors, it still faces challenges such as limited infrastructure, difficult access to capital, and low investment. Foreign investment is considered capable of accelerating infrastructure development and creating jobs, while bank credit plays a role in providing access to capital for local businesses. The combination of these two factors is believed to increase productivity and address economic inequality.

Based on the above background, the author is interested in conducting this research because the realization of foreign investment in NTT is still relatively low compared to other provinces in Indonesia. Furthermore, bank credit distribution is uneven and tends to be selective due to high economic risks. Therefore, the author chose the title "The Influence of Foreign Investment and Bank Credit on Economic Growth in East Nusa Tenggara." Foreign investment and bank credit play a crucial role in driving economic growth in East Nusa Tenggara. Foreign investment can increase productivity and open up job opportunities, while bank credit plays a role in providing capital for the local business sector. However, the effectiveness of both factors is still affected by various obstacles, such as limited infrastructure and unequal access to capital. Therefore, it is necessary to emphasize proactive policies from the government to attract foreign investment and expand access to bank credit as a strategic step to accelerate inclusive economic growth in NTT.

II. RESEARCH METHODOLOGY

This research is quantitative. Quantitative research utilizes numbers and statistical analysis. This study aimed to determine the impact of foreign investment and bank credit on economic growth in East Nusa Tenggara during the 2021-2023 period.

The research approach used is an explanatory research approach. Research with an explanatory approach is a study that aims to explain the causal relationship between foreign investment, bank credit and economic growth. The data used in this study is secondary data, namely data obtained from other parties. Secondary data generally consists of data or documentation of existing reports. In this study, the data collection technique used is a literature study, namely by studying the data available on the official BPS website. The data analysis techniques used are panel data regression techniques, panel data regression estimation models, model specification tests, classical assumption tests, and hypothesis tests.

III. **RESULT AND DISCUSSION**

1. Determination of Panel Data Model

Chow test results

Table 1 Chow Test

Effect Test	***Statistics***	**df**	**Prob.**
Cross-section F	0.966420	(21.42)	0.5188
Cross-section chi-square	26.017769	21	0.2058

Source: Data processed using EViews 12, (2025)

Table 1 shows that the probability value is 0.2058 > 0.05. Therefore, H0 is accepted. This concludes that the common effects approach is superior to the fixed effects approach.

2. Lagrange Multiplier Test Results

Table 2 Lagrange Multiplier Test

	Cross-section	*Hypothesis Test Time*
Breusch-Pagan	0.008645	0.479205
	(0.9259)	(0.4888)

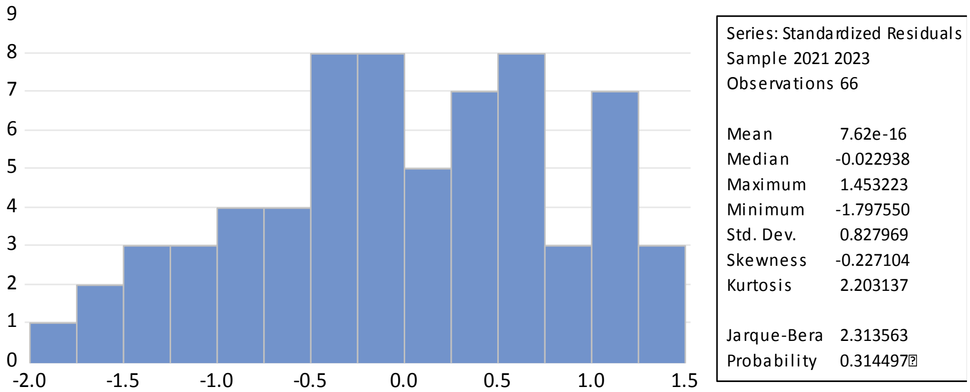
Source: Data Processed by the Author, 2025

Table 2 shows that the probability value is 0.9259 > 0.05. Therefore, H1 is rejected. This concludes that the common effects approach is superior to the random effects approach.

3. Classical Assumption Test

Normality Test

Figure 1 Normality Test Results



Source: Processed by the author, 2025

Based on Figure 1 above, the probability value is 0.314497, indicating that the probability value is greater than 0.05 (0.314497 > 0.05). Thus, it can be concluded that the data in this study are normally distributed.

4. Multicollinearity Test

Table 3 Multicollinearity Test Results

	X1	**X2**
X1	**1,000,000**	**0.354402**
X2	**0.354402**	**1,000,000**

Source: Processed by the author, 2025

The table above shows the value for each independent variable, Foreign Investment (X1) is 0.354402, and Bank Credit (X2) is 0.354402, where for each independent variable, there is no correlation coefficient value of more than 0.80, so this test can conclude that there is no multicollinearity problem.

5. Autocorrelation Test

Table 4 Autocorrelation Test Results

Dubin-Watson
1.490087

Source: Processed by the author 2025

Based on the results in the table above, the Durbin Watson value is 1.490087. It can be seen that -2 < DW < +2 (-2 < 1.937283 < +2) so it can be concluded that the data is free from autocorrelation or there are no symptoms of autocorrelation so that the criteria are -2 < DW < +2.

6. Heteroscedasticity Test

Table 5 Heteroscedasticity Test

Variables	Probability
X1	0.9889
X2	0.6736

Source: Processed by the author, 2025

Based on the table of heteroscedasticity test results above, the chi-square probability value for the Foreign Investment variable (X1) is 0.9889, the chi-square probability value for the Banking Credit variable (X2) is 0.6736, so it can be concluded that in this test there is no heteroscedasticity problem.

7. Panel Data Regression Estimation Results

The following are the results of the common effect estimation:
Y =8.09474209757+ 0.06699150116386*X1 - 0.641843892797*X2

a. The constant value of 8.09 means that without the variables Foreign Investment (X1) and Bank Credit (X2), the Economic Growth variable (Y) will experience an increase of 8.09%.

b. The regression coefficient value of the Foreign Investment variable (X1) is 0.06699, meaning that during the 2021-2023 period, if foreign investment increases by 1%, it will reduce economic growth in East Nusa Tenggara Province by 6.6%.

c. The regression coefficient value of the Banking Credit variable (X2) is -0.641843, meaning that during the 2021-2023 period, it shows that if banking credit increases by 1%, it will reduce economic growth in East Nusa Tenggara Province by 6.41%.

8. Statistical Hypothesis Testing

t-test

The t-test was conducted to determine the influence of the independent variables, namely foreign investment (X1) and bank credit (X2) individually on the dependent variable, namely economic growth (Y), by comparing the t-count and t-table and the probability value of the t-statistic with a=5% (0.05).

a. Partial Test of Variable X1 Against Variable Y

1) Hypothesis Formulation
   a) H0: β1= 0 foreign investment variables do not have a significant effect on economic growth in East Nusa Tenggara Province.
   b) Ha: β1≠ 0 foreign investment variables have a significant effect on economic growth in East Nusa Tenggara Province.

2) Determination of Significance Level
   The level of significance in this study is α=5% (0.05). A value of α=5% is considered a reasonable balance between the risk of committing a Type I error and a Type II error in research. This means that the researcher accepts a 5% risk of deciding that there is an effect or difference when there is actually none. A significance value of 5% is a conventional standard widely used in research because it is considered to provide a reasonable balance between the risk of Type I and Type II errors.
3) Determination of Testing Criteria
   a) If the t-count value < t-table and the probability value > 0.05 then H0accepted.
   b) If the t-count value > t-table and the probability value < 0.05 then Haaccepted.
4) Test Results

Table 6 Results of the t-test for Foreign Investment (X1)

Variables	t-count	Probability
X1 (Foreign Investment)	2.032538	0.9963

Source: Processed by the author, 2025

Based on the results of the t-test on the foreign investment variable, the calculated t-value was 2.032538 > t-table of 1.997729 and the probability value was 0.9963 > 0.05, so H1 was accepted, meaning that the foreign investment variable had a significant effect on economic growth in East Nusa Tenggara Province.

The results of the t-test of the foreign investment variable (X1) on the economic growth variable (Y) can be shown in the curve below:

b. Partial Test of Variable X2 Against Variable Y

1) Hypothesis Formulation

a) H0: β2= 0 banking credit variables do not have a significant effect on economic growth in East Nusa Tenggara Province.
b) Ha: β2≠ 0 banking credit variables have a significant effect on economic growth in East Nusa Tenggara Province.

2) Determination of Significance Level

The significance level in this study is α=5% (0.05). A value of α=5% is considered a reasonable balance between the risks of committing a Type I error and a Type II error in research. This means the researcher accepts a 5% risk of concluding that there is an effect or difference when there is none. A significance level of 5% is a conventional standard widely used in research because it is considered to provide a reasonable balance between the risks of Type I and Type II errors.

3) Determination of Testing Criteria

a) If the t-count value < t-table and the probability value > 0.05 then H0accepted.
b) If the t-count value > t-table and the probability value < 0.05 then Haaccepted.

4) Test Results

Table 7 Results of the Banking Credit t-Test (X2)

variables	**t-count**	**Probability**
X2 (Bank Credit)	-0.288857	0.7736

Source: Processed by the author, 2025

Based on the results of the t-test on the banking credit variable, the calculated t-value is -0.288857 < t-table of 1.997729 and the probability value is 0.7736 > 0.05, so H0 is accepted, meaning that the banking credit variable does not have a significant effect on economic growth in East Nusa Tenggara Province. From the results of the t-test on the banking credit variable (X2) on the economic growth variable (Y), it can be concluded in the curve below:

Simultaneous Test (F-Test)

Table 8 F-Test Results

F-count	Probability
0.048267	0.952914

Source: Processed by the author, 2025

Based on the results of the F test above, the F-calculation value is 0.048267 < F-Table of 3.142809 and the probability value is 0.952914 > 0.05, so Ha is accepted, meaning that the variables of foreign investment and banking credit simultaneously have a significant effect on economic growth in East Nusa Tenggara Province.

Coefficient of Determination (R2)

Table 9 Results of the Determination Coefficient (R2) Test

Adjusted R-squared
0.030168

Source: Processed by the author, 2025

Based on the results of the coefficient of determination test, the Adjusted R-squared value is 0.030168, this indicates that the foreign investment and banking credit variables are able to explain the economic growth variable by 30%, while the remaining 70% is explained by other variables not examined in this study.

IV . DISCUSSION

Partial statistical tests indicate that foreign investment significantly impacts economic growth in East Nusa Tenggara Province, while bank credit does not. Simultaneous tests indicate that foreign investment and bank credit jointly impact economic growth in East Nusa Tenggara Province.

The Impact of Foreign Investment on Economic Growth

Foreign investment is capital invested to generate profits or increase investment value. Foreign investment plays a crucial role in driving economic growth in East Nusa Tenggara. Increasing foreign investment can improve regional productivity, competitiveness, and public welfare.

Foreign investment is a crucial instrument for driving national economic growth. Foreign capital flows not only bring fresh funds but also technology, managerial skills, and access to global markets, all of which can boost economic productivity. Foreign investment plays a crucial role in the development of micro, small, and medium enterprises (MSMEs) and contributes significantly to gross domestic product (GDP). Foreign companies bring modern production technology and more efficient management practices, and through partnerships, MSMEs can access funding, training, and innovation from foreign companies operating in Indonesia (Tambunan, 2019).

Based on research conducted by the author, the foreign investment variable has a positive and significant influence on economic growth in East Nusa Tenggara Province. This can be seen from the regression coefficient value of 0.06699, meaning that every 1 percent increase in foreign investment will reduce economic growth in East Nusa Tenggara Province by 0.06699 percent, and vice versa. Meanwhile, the t-test results on the foreign investment variable obtained a t-count value of2.032538> t-table of 1997729 and probability value of 0.9965 > 0.05, then H1 is accepted, meaning that the foreign investment variable has a significant effect on economic growth in East Nusa Tenggara Province.

Foreign investment is widely recognized as a key driver of economic growth, particularly in developing countries. Foreign capital flows not only provide additional funds for development but also have long-term impacts through technology transfer, increased production capacity, and international market integrity. Foreign investment has a positive and significant impact on economic growth because it provides additional capital, technology transfer, creates jobs, increases exports, and strengthens the financial sector. Therefore, foreign investment is a crucial instrument in economic growth strategies, particularly in developing countries.

In Keynesian theory, developed by John Maynard Keynes, the relationship between foreign investment and economic growth is positive because foreign investment directly contributes to increasing aggregate demand, which is the key to driving economic growth. Keynesians also emphasize the crucial role of aggregate demand in determining the level of economic activity. Within this framework, both domestic and foreign investment play a crucial role as a major component of aggregate demand. According to Keynesians, foreign investment can drive economic growth by increasing production capacity, creating jobs, and transferring technology.

From a Keynesian perspective, foreign investment has the potential to boost economic growth through several channels. First, foreign investment creates new demand for local goods and services and creates jobs. The increased income from these new jobs then stimulates public consumption, which increases overall aggregate demand. Second, the influx of technology, modern management, and business practices from foreign companies can increase local labor productivity. In the long run, this has the potential to improve domestic economic efficiency and support sustainable growth.

Keynesian theory emphasizes the importance of aggregate demand in driving economic growth, including the role of investment in increasing national income. Specifically, regarding foreign investment in East Nusa Tenggara, Keynesians explain that the influx of foreign direct investment has the potential to boost regional economic growth by stimulating aggregate demand through job creation, increased consumption, and infrastructure development. Strategic sectors in East Nusa Tenggara include tourism, agriculture, and renewable energy.

According to Keynes, increased spending and investment will trigger a multiplier effect, with each increase in investment generating a greater increase in income. However, the effectiveness of foreign investment in driving economic growth in East Nusa Tenggara also depends heavily on local capacity, regional government policies, and the readiness of supporting infrastructure to absorb and manage the investment productively.

The results of this study are in line with the results of research conducted by Rizal R. Manullang, Abdillah Arif Nasution, Aulia Arif Nasution, Heppi Syofya (2024) in their journal entitled Analysis of the influence of foreign investment and domestic investment on economic growth in Indonesia, which states that foreign investment has a significant influence on economic growth in Indonesia.

The Impact of Bank Credit on Economic Growth

Bank credit is a loan facility provided by banks to the public, businesses, and local governments to support consumption, investment, and production activities. In East Nusa Tenggara Province, bank credit plays a crucial role in driving the economic growth of the developing region.

Keynesians believe that economic growth is largely determined by aggregate demand, which consists of consumption, investment, government spending, and net exports. Among these components, investment plays a crucial role because it can create new production capacity and expand economic activity. This is where bank credit plays a crucial role. Keynes argued that private sector investment decisions are strongly influenced by the availability of funds and interest rates. Bank credit, as a primary source of investment financing, plays a role in facilitating capital accumulation by businesses. When banks provide loans to the productive sector, this enables companies to expand their production capacity, build facilities, and hire more workers, all of which will drive economic growth.

Keynes's theory explains that bank credit plays a crucial role in driving economic growth because it can increase investment and consumption, two key components of aggregate demand. In East Nusa Tenggara, the availability of sufficient bank credit can be a key driver of regional economic growth. Ease of access to credit allows small and medium-sized businesses to expand, purchase equipment, and create new jobs. Keynes emphasized the crucial importance of credit in East Nusa Tenggara, given that many potential sectors, such as agriculture, livestock, and tourism, have yet to develop optimally due to limited capital. Therefore, effective and well-targeted bank credit distribution can create a multiplier effect that encourages increased income and sustainable regional economic growth.

Based on research conducted by the author, the banking credit variable has a negative but insignificant influence on economic growth in East Nusa Tenggara Province. This can be seen from the regression coefficient value of -0.641843, meaning that every 1 percent increase in banking credit will reduce economic growth in East Nusa Tenggara Province by -0.641843 percent, and vice versa. Meanwhile, the results of the t-test on the banking credit variable obtained a t-count value of 0.288857 < t-table 1997729 and a probability value of 0.7736 > 0.05, so H0 is accepted, meaning that the banking credit variable does not have a significant effect on economic growth in East Nusa Tenggara Province.

The results of this study are in line with the results of research conducted by Amalinda Saskya, Octarina, Rifki Khorudin (2022) in their journal entitled Analysis of the role of investment credit on economic growth in Indonesia, stating that bank credit has no significant effect on economic growth.

The reason bank credit doesn't significantly impact economic growth is due to unproductive credit allocation. If the majority of credit is channeled to consumer sectors like motor vehicle loans or household consumption, rather than to sectors like agriculture, manufacturing, and infrastructure, the impact on output growth and economic growth is very limited.

Bank credit is generally considered a driving force of economic growth because it provides capital for the real sector. However, under some circumstances, bank credit does not significantly impact economic growth. This occurs when credit distribution is not directed productively or fails to increase long-term production capacity.

Bank credit does not always significantly impact economic growth if credit distribution is primarily consumer-oriented, credit quality is low (high nonperforming loans), access to MSMEs is limited, or banks are inefficient in carrying out their intermediary function. Therefore, the positive impact of bank credit on economic growth depends on the direction of credit allocation, the quality of borrowers, and the strength of the domestic financial system.

V.CONCLUSION

Based on the results of the analysis and hypothesis testing regarding the influence of foreign investment and bank credit in East Nusa Tenggara Province, the following conclusions can be drawn:

1. Foreign investment variables have a positive and significant influence on economic growth in East Nusa Tenggara Province. This can be seen from the regression coefficient of 0.06699, meaning that every 1% increase in foreign investment will reduce economic growth in East Nusa Tenggara Province by 0.06699%, and vice versa. Meanwhile, from the results of the t-test on the foreign investment variable, the calculated t-value is 2.032538> t-table of 1997729 and the probability value is 0.9965> 0.05, so Ha is accepted, meaning that the foreign investment variable has a significant effect on economic growth in East Nusa Tenggara Province.

2. The banking credit variable has a negative and insignificant influence on economic growth in East Nusa Tenggara Province. This can be seen from the regression coefficient value of -0.641843%, meaning that every 1% increase in banking credit will reduce economic growth in East Nusa Tenggara Province by -0.641843%, and vice versa. Meanwhile, the t-test results on the banking credit variable obtained a t-count value of 0.288857 < t-table 1997729 and a probability value of 0.7736 > 0.05, so H0 is accepted, meaning that the banking credit variable does not have a significant effect on economic growth in East Nusa Tenggara Province.

3. The variables of foreign investment and banking credit together do not have a significant effect on economic growth in East Nusa Tenggara Province, because the value is 0.048267 < 3.142809 > 0.05.

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