DOES CORRUPTION HAS A POSITIVE IMPACT ON ECONOMIC GROWTH?

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Abstract: The problem of corruption is a common problem and continues to this day in Indonesia. The level of corruption that does not improve causes losses and inefficiency in the economy. The high level of corruption has been an obstacle to economic progress and growth in Indonesia so far. This research aims to find out more about the impact of worsening corruption on foreign investment, the Rupiah exchange rate against the dollar, and economic growth. This research uses secondary data obtained from the central statistics agency for 16 years. Research data processing uses PLS. Based on the research results, it was found that the level of corruption affects the level of foreign investment and the Rupiah exchange rate against the Dollar but not economic growth. This research also found that foreign investment can mediate the relationship between the level of corruption and economic growth. In this research, it was found that the higher the level of corruption, the more foreign capital will enter. This is because countries with high levels of corruption have poor administrative systems so that by using bribes the investment process can run more easily. The greater the foreign capital that enters, the greater the capital in economic activities so that economic growth will increase. This is certainly not a good thing the Indonesian government needs to improve the quality of its bureaucracy so that corrupt practices do not get worse

Keywords: Coruption Indes, Ecomic Growth, Foreign Investment

1. Introduction

Corruption has long been prevalent in Indonesia and persists to this day. Corruption in Indonesia has become pervasive and remains the primary adversary that will be completely eliminated in due course. Corruption has detrimental effects on society, as it undermines the equitable distribution of rights among various community groups. The extent of corruption in Indonesia is evident through the corruption index, known as the corruption perception index (CPI). A higher proximity to one hundred indicates a lower level of corruption in the country. Below is the Consumer Price Index (CPI) statistics for Indonesia during the past decade.

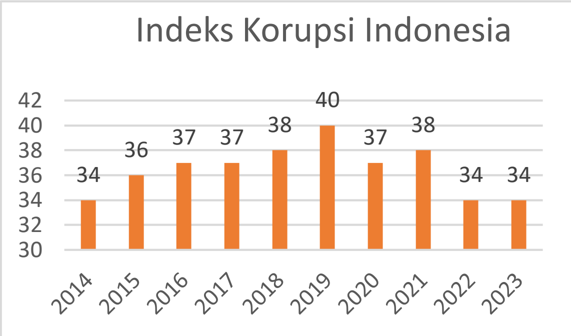

Figure 1
Development of the Corruption Index in Indonesi
Source: https://www.transparency.org/

Based on Figure 1, Indonesia's corruption perception index continues to improve until 2019. Indonesia is considered to be increasingly clean from corruption. From 2020 to 2023, the corruption perception index in Indonesia tends to decline. The data indicates that the level of corruption in Indonesia is getting worse. Widyoko (2021) stated that the decline in global indicators was caused by corruption between business people and public service providers to simplify business and investing. The government's policy is to open as many investment faucets as possible in Indonesia to support economic activities. If this policy continues without holding firm on investment, it will lead to corruption. High corruption can cause high economic costs, so it can hamper economic growth through obstacles in investment (Hariyani et al., 2016) due to inefficient costs incurred when investing in foreign capital, causing incoming foreign investment to experience obstacles. This obstacle causes the process of developing economic growth to become more hampered because, in ASEAN countries, foreign investment is one of the practical components in accelerating economic growth, so this investment allocation must be done appropriately (Sijabat, 2023).

In Indonesia, corruption also negatively influences foreign investment. If the corruption index decreases, the amount of incoming foreign investment will decrease (Christianingrum, 2023). Guha et al. (2020) state that countries with economic growth above 6% are more attractive for foreign investment than countries with economic growth below 6%, even though companies have to face the level of corruption in that country. Multinational companies with experience in dealing with corruption in host countries can reduce the costs of entering corruption in host countries (Thede & Karpaty, 2023). Gossell (2018) and Mustofa (2021) state that large amounts of foreign investment go to more corrupt countries because the host country can protect investors from high taxes and wages and issues related to employment and external supervision.

The influx of foreign capital investment will likely stimulate economic activity. Harrod Domar says capital accumulation is a lever in a country's economic growth. The more investment that comes in, the more business activities there will be, which will impact the opening of more job opportunities. The more jobs there are, the more significant the increase in household income, which impacts increasing demand so that the output produced in the economy increases. Also, foreign investment for infrastructure development can support economic activities so that the economic growth process can run better. Mustafa (2021) and Sianggaran (2023) argue that FDI positively influences economic growth. Baiashvili and Gatti (2020) FDI will have a good effect

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on a country's growth if institutions in a country can formulate a practical policy framework, efficient allocation of resources, and a government that can control the level of corruption can further increase the benefits of foreign investment for economic growth. Susilo (2018) states that FDI can positively or negatively impact economic growth and is also influenced by the characteristics of developing and developing countries.

Corruption also has an impact on exchange rates. The correlation between the level of corruption and the exchange rate is like a U shape. When a country has a high level of corruption, it will impact the flow of foreign currency entering the economy. The higher the level of corruption, the more investors will think about putting their funds into another country or withdrawing their money from that country. If this happens, the host country's currency may depreciate. The presence of high levels of corruption can cause restrictions on international trade. The costs of activities are increasingly expensive, which impacts the selling price of goods. The less popular a country's currency is, the cheaper or depreciated that currency will be. Following research conducted by Jujeno et al. (2019), the perception of corruption positively impacts the exchange rate, so the higher the perception of corruption, the more the exchange rate will increase.

Corruption makes the government ineffective, causing international trade activities not to run smoothly and causing less foreign money to enter the economy, causing the exchange rate to depreciate. The depreciation of the host country's currency causes the price of goods produced much cheaper than in other countries, thereby increasing exports. This increase in exports causes domestic production levels to increase so that domestic output increases, resulting in economic growth (Zhu et al., 2022; Karahan, 2020). According to Han (2019), the level of investment strongly mediates the impact of the exchange rate on the economy. Deng et al. (2023) state that the exchange rate significantly impacts economic growth in developing countries compared to countries with lower GDP levels. The exchange rate's contribution to economic growth will be more effective if it is supported by balanced government policies that can improve the relationship between the exchange rate, exports and economic growth.

From 2020 to 2023, Indonesia's corruption index tends to decline; this indicates that Indonesia is becoming more corrupt. Notably, a decline followed the decline in the ranking of corruption in the economy. In theoretical concepts, the higher the level of corruption in a country, the greater the economic costs implemented inefficiently, causing the dislocation of existing resources, which can hamper economic growth. By Densumite research (2023), Gründler and Potrafke (2019), and Hayet and Naceur (2022), corruption has a negative and significant correlation with economic growth, so the lower the level of corruption, the higher the level of economic growth. Yusof et al. (2023) state that corruption has a positive and significant influence on economic growth in Malaysia in the short term. Pluskota (2020) states that corruption can solve other economic problems, such as bureaucratic problems. If the bureaucracy is not well developed, corruption can stimulate economic growth if the government does not run effectively. Spyromitros and Panagiotidis (2022) state that corruption hampers economic development in developing countries. Different levels of corruption have different impacts in each region, especially in Latin American countries; the level of corruption positively impacts economic growth. Sari and Raharjo (2019) state that corruption correlates with economic growth.

2. Literature Review

The Impact of Corruption on Foreign Investment

Corruption is a behaviour that is very detrimental to society. Corruption can cause inefficiencies in the economic cost structure. The existence of corruption causes the bureaucratic structure to become increasingly inefficient, making investors reluctant to invest their funds in Indonesia. The presence of corruption causes investment costs to be more expensive compared to countries with low levels of corruption. Foreign companies with experience investing capital in corrupt countries know the loopholes to minimize the costs incurred due to corruption (Thede & Karpaty, 2023). According to research by Chistianingrum (2023), corruption harms the level of foreign investment. In some countries, the level of corruption positively influences the level of foreign investment (Mustofa, 2021). The government's bureaucratic structure could be more efficient, so cooperation is needed for foreign investment to enter. Therefore, efforts are needed to increase government bureaucracy to minimize corruption. In several developing countries, as long as they have economic growth above 6%, it is okay for investors to invest in countries with high levels of cooperation (Guha et al, 2020). Based on the above analysis, the following hypothesis can be formulated:

H_1: The level of corruption affects foreign investment

The Impact of Corruption on Exchange Rate

The existence of corruption makes the economic costs of investment and international trade quite expensive. The existence of corruption causes the inflow of foreign capital to be less. The money market causes the amount of Rupiah to increase compared to other foreign currencies, so this causes the Rupiah to depreciate. The selling prices affect less competitive goods in the international market. This condition causes the flow of foreign currency into the country to be small compared to the domestic currency (Rupiah), so this causes the Rupiah to experience depreciation. Junjeno et al. (2019) state that corruption is the main problem faced by developing countries such as India and Pakistan, which negatively impacts the economy because both countries are very dependent on the dollar's value and have high import values. Based on the explanation above, the following hypothesis can be formulated.

H_2: the level of corruption affects currency exchange rates

The Impact of Foreign Investment on Economic Growth

Investment in foreign capital is vital to developing countries. Direct foreign capital investment is one of the forms of technology transfer carried out from the State of origin of the host state capital. Proper and accurate foreign capital management through policies impacts economic growth. If foreign capital entering the host country is managed correctly, it is capital in economic activity. (Baiashvili dan Gattini, 2020). Capital in the economy can increase the economic capacity and output generated in economic activities to create economic growth in the country. Susilo (2018) that the effects of foreign capital growth on some sectors of the economy in developing and developing countries have different effects depending on the country's characteristics. Mustafa (2021) and Sijabat (2023) stated that foreign capital growth positively impacted economic growth, so the government should implement a series of policies to support the entry of foreign capital. India could use foreign capital to boost economic growth in the long term, but the study found no correlation between foreign capital investment and economic growth. (Talwar dan Srivastava; 2018). Based on the above explanation, the hypothesis can be formulated as follows:

H_3: Foreign capital cultivation has an impact on economic growth

The Impact of Rate Exchange on Economic Growth

A country's exchange rate is closely linked to the amount of foreign capital inputs and the country's net export rate in an economy. On the net export side, when the host country's exchange rate is depressed, its exports will be much cheaper than other countries. It has an impact on increased domestic product demand. Increased demand will increase the output produced in the economy so that there is economic growth. In addition, Karahan (2020) found that exchange rates hurt economic growth. Zhu et al. (2022). Depressed currencies can boost exports and impact economic growth. It is different from Han's (2019) study that the impact of exchange-rate fluctuations has different effects on economic growth in each country, where the impact would be much greater mediated by the cultivation of foreign capital than international trade. According to Deng et al. (2023), exchange rate adjustments boost GDP growth in economies more effectively than in countries with lower GDP rates. Based on the explanation above, it can be formulated.

H_4: exchange rate influences economic growth

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The Impact of Corruption on Economic Growth

Corruption is one of the main inefficiencies in bureaucratic activities. Corruption leads to internal inefficiency due to its high economic cost. Corruption also causes the allocation of resources in the economy to become inefficient, so the output produced can not be optimized. Agale and Kolgo (2018) found no significant correlation between the rate of corruption and economic growth. A low level of corruption is possible in solving economic problems because corruption can solve economic problems such as bureaucracy that restricts development, and corruption at a low level can support economic stability if the State does not work well. Densumite (2023). The lower levels of corruption are a prerequisite for sustained economic growth. Yusof et al. (2023) state that corruption in Malaysia has a positive and significant impact on economic growth. Based on the above explanation, the hypothesis can be formulated as follows:

H_5: The level of corruption impacts economic growth

3. Method

This quantitative study examines the relationship between the independent variable, the rate of corruption, and the dependent variable, the economic growth mediated by the foreign capital growth variable, and the exchange rate of Rupiah against the U.S. dollar. The data for the level of corruption were obtained from www.transparency.org. The data in this study ranged from 2008 to 2023.

The data analysis technique used in this study is using PLS (partial least square). SEM PLS is a statistical technique used to construct and test statistical models that are usually model-cause-effect. SEM selection is the same as analysis techniques due to consideration of interaction modelling, nonlinearity, correlated variable-free variables, minimizing measurement errors, and interference error-correlated errors. This study also used latent variables measured using many indicators. (Sarwono, 2015). The purpose of using PLS is to make predictions. The prediction here is a prediction of inter-constructive relationships. (Hussein, 2015). The model in this study is as follows:

$$PMA = \beta\, 0 + \beta\, 1\ KR + \varepsilon\, 1$$
$$NTR = \beta\, 0 + \beta\, 2\ KR + \varepsilon\, 2$$
$$PTM = \beta\, 3 + \beta\, 4\ PMA + \beta\, 5\ NTR + \beta\, 6\ KR + \varepsilon\, 3$$

PMA represents foreign capital planting, K.R. represents corruption, NTR represents the rupee exchange rate against the U.S. dollar, K.R. is the rate of corruption, and PTM represents economic growth, as well as ε is an error variable.

4. Result and Discussion

Result

Discriminant Test of Validity

The results of the discriminant variability test can be seen in table 2 below:

Table 2. Results of the Discriminant Validity Analysis
***Heterotrait-Monotrait Ratio* (HTMT)**

Variables	Corruption	Foreign Investment	Exchange Rates	Economics Development
Corruption				
Foreign Investment	0,420			
Exchange Rates	0,767	0,382		
Economics Development	0,827	0,453	0,787	

Source: Results of Smart PLS

The above table shows that the discriminant validity value of the variable of corruption against foreign capital was 0.420, the corruption variable against exchange rate was 0.767, and the corrupt variable to economic growth was 0.827. In contrast, the discriminating validity of the foreign capital variable towards exchange rates was 0.382, and foreign capital against economic growth was 0.453. The result of all the values above is less than 0.90, and all constructions have good discriminatory validity.

Testing *Average Variance Extracted* (AVE)

The AVE test results can be seen in Table 3 below:

Table 3. Test Results of *Extracted Average Variance*

Variables	Corruption	Foreign Investment	Exchange Rates	Economics Development
Corruption	**1,000**			
Foreign Investment	0,420	**1,000**		
Exchange Rates	0,767	0,382	**1,000**	
Economics Development	0,827	0,453	0,787	**1,000**

Source: Processed from SmartPLS results

The AVE value in the table above shows that all variables have higher AVE values than the other variable construction values. Thus, the measured data can reflect the variable studied in the examination, which means that the research data has excellent discriminant validity.

Testing R^2

This test is used to see how much influence exogenous variables have on endogenic variables, i.e. how much exogeneous variables are capable of explaining the variation of endogeneal variables. Here's the R2 results as table 4:

Tabel 4. Test Result of R^2

Variables	Value of R^2
Variables of Corruption on foreign capital	0,176
Variables of Corruption on exchange rates	0,588
Variables of Corruption, foreign capital, and exchange rates on economic development	0,749

Source: Processed from SmartPLS results

Table 4 above shows that the R2 value of the foreign capital variable structure model affected by the corruption variable is 0.176, meaning that the foreign capital variable can be explained by the variation of the corruption variable of 17.6%. Factors outside the study of the model foreign capital structure influence the data of 82.4%.
Corruption, foreign capital, and an exchange rate of 0.749% affect the economic growth structure model. The economic growth variable can be explained by the corruption variable, the foreign capital variable, and the exchange rate variable, which is 74.9%. This means that the behaviour of factors outside the study of the economic growth model structure influences 25.1%.

Testing Q^2

The Q2 test is used for predictive relevance or determining the model's validity (Goodness of fit). It aims to assess the magnitude of diversity or variation of research data on the studied phenomenon and estimate its parameters. Here is how to calculate the Q2 value with the formula:

$$
\begin{aligned}
Q^2 &= 1 - (1\text{-}R1^2)\ (1\text{-}R2^2)\ (1\text{-}R3^2) \\
&= 1 – (1\text{- } 0{,}176)\ (1\text{- } 0{,}588)\ (1\text{- } 0{,}749) \\
&= 1\text{- } (0{,}824)\ (0{,}412)\ (0{,}251) \\
&= 1\text{- } 0{,}085 \\
&= 0{,}915 = 91{,}5\%
\end{aligned}
$$

Based on the Q2 count value, this research model's goodness of fit is 91.5%. In other words, the magnitude of diversity or variation of the research data against the phenomenon being studied and the estimate of the parameters of 91.5%, while other factors outside this study influence the rest.

Significanct Testing

The significance test aims to determine the influence of exogenous variables on endogenic variables.

Table 5. Result of Research Data *Bootstrapping*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Corruption → Foreign Capital	0,420	0,455	0,226	1,857	0,044
Corruption → Exchange Rate	0,767	0,777	0,099	7,782	0,000
Corruption → Economic Development	0,513	0,571	0,318	1,613	0,107
Foreign Capital → Economic Development	0,103	0,177	0,316	0,325	0,746
Nilai Tukar →Economic Development	0,354	0,219	0,428	0,829	0,408
Corruption → Foreign Capital→ Economic Development	0,315	0,255	0,274	1,150	0,043
Corruption -> Exchange Rate→ Economic Development	0,272	0,154	0,482	0,272	0,272

Source: Processed from SmartPLS results

Discussion

Corruption Levels Affects Foreign Investment

Based on the test of the hypothesis, the level of corruption has a significant and positive influence on foreign capital. The higher the level of corruption, the more foreign capital is entering Indonesia. It is a paradox that when corruption is high, the interest in foreign investment decreases. In a country with a level of corruption, managing permits to raise capital is relatively easy because of the easy cooperation with local stakeholders just by providing bribes. This condition, of course, facilitates the entry of foreign capital so that it becomes self-attracting data for multinational companies, particularly those that have had their own experience, which leads to more and more foreign capital coming in. In Indonesia itself, the comparison of the level of corruption with the flow of foreign capital can be seen in table 6 below:

Table 6. Corruption and Foreign Capital Perception Index

Year	CPI	FDI (million US)
2019	40	28,2
2020	37	28,7
2021	38	31,1
2022	34	45,6
2023	34	51,279

Source: BPS (20019-2023)

Based on Table 6, in 2019, the corruption perception index of Indonesia was 40 and then from 2020 to 2023, the perception of corruption index in Indonesia tended to experience a continuous decline. The higher the percentage, the worse the perception index indicates that corruption is rising. This condition corresponds to the result of the data being processed. The wrong signal was due to the inefficient bureaucracy, so improving the quality of the foreign capital that enters Indonesia is an actual foreign capital. It does have a positive impact and is based on the provisions of the existing regulations. The situation in Indonesia, according to the results of

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research by Mustofa (2021), there are some countries where the level of corruption has a positive influence on the rate of foreign capital levying. The less efficient governmental bureaucratic structure of foreign funds means cooperation with government agencies is necessary. Therefore, efforts are needed to increase government bureaucracy to minimize corruption.

Level of corruption affects the exchange rate of currency

The influence of the level of corruption has a positive effect on the exchange rate. This statement means that the higher the rate of corruption, the more volatile the exchange rate is. Perazzi and Romero's (2022) volatility on long-distance high exchange rates was 42% on average in countries with high levels of corruption. As time passes by imposing various adoptions on a controlled exchange rate regime, in some periods, it experiences a better level of stability. A corrupt government affects the policy-making of the economy, including the policy in determining the magnitude of exchange rates that affect the economic growth of a country. One is Venezuela's fixed exchange rate system in 2003, which opened the door to the dollar black market and a corrupt exchange-rate system that became one of the causes of volatility in the country's exchange rates. (Castillo dan Perazzi;2017; Kulesza, 2017). Cevik et al. (2017) state that the stability of a country's exchange rate depends on a solid macroeconomic state and a stable institutional system. High levels of corruption cause low macroeconomic governance and inefficient or arbitrary fiscal and monetary policy, leading a country to devaluate its currency to address fiscal deficits. According to Husein et al. (2017) and Spyromitros (2020), corruption practices carried out by a state strongly impact the cost of borrowing, so it impacts exchange rates. Junejo et al. (2019) corruption and foreign debt perception index have positively influenced exchange rates.

In Indonesia, along with the deteriorating index of corruption perception from 2019 to 2023, exchange rates are also prone to depression. It can be seen in table 7 below:

Table 7. Index of Corruption Perception and Exchange Rate

Year	CPI	Exchange Rate
2019	40	Rp 13.901
2020	37	Rp 14.105
2021	38	Rp 14.269
2022	34	Rp 15.731
2023	34	Rp 15.416

Source: BPS (20019-2023)

There is a tendency to be a depression in the exchange rate of the RMB to the dollar except in 2023 – not only because of the deteriorating corruption index but also because other macroeconomic factors influence such economic growth as occurred during pandemic times. The deteriorating index of corruption in Indonesia also illustrates a poor governance system that is inadequate for the resulting policies. In countries with increasing levels of corruption, macroeconomic instability is due to inefficient government fund management, excessive debt and the prevalence of fiscal policy over monetary policy. These conditions may result in the instability of interest rates caused by governments' manipulation of currency exchange rates to finance public spending, promote international trade or control currencies in the money markets for inappropriate purposes. In countries with high levels of corruption, the amount of money spent to intervene in the money market is often included in the production cost, making it less profitable. So, this corruption is regarded as an irresponsible tax.

Foreign capital expansion affects economic growth.
Foreign capital has no significant influence on economic stability. However, the data in Table 8 show that foreign investment tends to increase.

Table 8. Value of FDI dan PDB

Year	FDI (US billion)	GDP (triliun Rp)
2019	28,2	10949155.4
2020	28,7	10722999.3
2021	31,1	11120077.9
2022	45,6	11710397.8
2023	51,279	12150699.1

Source: BPS (2019-2023)

Table 8 shows that in 2022 and 2023, Indonesia received a considerable flow of foreign investment funds, which is supported by economic growth.

Tabel 9. Consumption and GDP

Year	Consumption (Rp billion)	GDP (triliun Rp)
2018	5 651 456,3	10949155.4
2019	5 936 399,5	10722999.3
2020	5 780 223,4	11120077.9
2021	5 896 706,8	11710397.8
2022	6 187 190,4	12150699.1

Source BPS: 2019-2022

From Table 9, Indonesian consumption values tend to increase. The government recognizes the importance of household consumption stability in the economy. If the spending rate of the population is falling, then the aggregate demand in the economy will fall, too, so the economy's output will fall. If this happens, it will lead to a slowdown in economic growth. Governments have always tried to keep public spending stable during pandemic and post-pandemic periods. Its policies include providing direct cash aid, aid for pensioners, and workers whose salaries are below the UMR to maintain inflationary stability. This policy is quite successful because, at the time of the pandemic, Indonesia included a country that rose faster than any other country. It is consistent with Talwar and Srivastava's study (2018) that no evidence shows a relationship between foreign capital and economic institutions. Susilo (2018) argues that individual spending supports economic growth in the U.S. more.

Exchange Rates Affects Economic Growth

This study indicates that exchange rates do not correlate with economic growth. Exchange rates impact economic growth mediated by the growth of foreign capital or the volume of international trade. In this research, it has been known that foreign capital does not correlate with economic development. Exchange rates can influence economic growth through international commerce. If the currency is devalued, our country's goods will be more competitive in the international markets, increasing export values. This increase in exports could lead to economic growth. In the country of Indonesia in 2019, the size of the ratio of export and import rates can be seen in Table 10 below:

Table 10. Export, Import, and Consumption Rates (%)

Year	Export Rate	Import Rate	Consumption Rate
2019	18,59	19,04	56,63
2020	17,33	15,64	57,63
2021	21,41	18,79	54,40
2022	24,49	20,90	51,87

Source: BPS (2019-2022)

Based on Table 9, it is known that the size of Indonesian net exports tends to increase from 2020 to 2022. From 2020 to 2021, Indonesia's net exports will increase by about 3% compared to the previous year. From the spending side, the non-governmental or household consumption rate still has the dominant value in contributing to the gross domestic product. Therefore, the magnitude of the exchange rate in this study does not significantly influence economic growth because the domestic consumer rate significantly contributes to economic growth.

Level of corruption affects economic growth.

In this study, corruption is found not to influence economic growth. The results of this study are interesting because, in Indonesia, the corruption perception index continues to decline, which is an indicator that the level of corruption is getting worse. Corruption does not influence economic growth. Hazmi (2024) states that in Indonesia, the rate of corruption occurs in licensing bids and procurement of goods and services. There is an opinion that corruption makes economic activities run smoothly. The higher the level of corruption, the greater the economic growth. The smoothness of economic activities and the ease of licensing economic activities. The easier the authorization of economic utilities is, the easier the economic activities can be carried out. The more economic activities, the more output is generated in the economy so that economic growth is increasing. This relationship is not significant because Hazmi (2024) states that economic freedom is one factor that influences economic growth in Indonesia. In Indonesia, each region has a different economic diversity. The more economic rules are laid down in one region, the less independent it is in economic activity or the less economic freedom it has.

Level of corruption affects economic growth through foreign capital.

This study reveals that the level of corruption influences economic growth by mediating the planting of foreign capital. This relationship is positive. The higher the level of corruption, the more foreign capital enters Indonesia. Corruption activities in Indonesia significantly impact business licensing management and economic activities so that activities can run smoothly. Indonesia is one of the countries with a bureaucracy that needs to be improved or more efficient.

The higher the level of investment in the economy, the greater the amount of foreign capital that enters the economy. Foreign capital entering Indonesia can be either a project or an investment. The more capital there is in the economy, the more outputs the economy produces. The results of this study are in accordance with the study conducted by Gründler and Potrafke (2019). The effect of corruption on economic growth, especially in authoritarian states, can be done through transmission through a decrease in foreign capital and an increase in inflation. Mustofa (2021) there are some countries where the level of corruption positively influences the rate of foreign capital investment. Due to the less efficient government bureaucratic structure, foreign capital investors can enter, and cooperation is necessary with government agencies. Therefore, it is necessary to increase government bureaucracy efforts in order to minimize corruption. Although corruption can be minimized, it must still be able to attract the level of foreign investment that enters the economy.

Level of corruption affects economic growth through exchange rates.

The research has concluded that exchange rates have a positive influence but cannot mediate the influence of the level of corruption on economic growth. A corrupt government affects the policy-making of the economy, including the policy in determining the magnitude of exchange rates that affect the economic growth of a country. One is Venezuela's fixed exchange rate system in 2003, which opened the door to the dollar black market and a corrupt exchange-rate system that became one of the causes of volatility in the country's exchange rates. (Castillo dan Perazzi;2017; Kulesza, 2017). Cevik et al. (2017) state that the stability of a country's exchange rate depends on a solid macroeconomic state and a stable institutional system. High levels of corruption cause low macroeconomic governance and inefficient or arbitrary fiscal and monetary policy, leading a country to devaluate its currency to address fiscal deficits. Husein et al. (2017) and Sumitro (2020) state that corruption practices carried out by a state strongly impact the cost of borrowing, impacting exchange rates. Junejo et al. (2019) corruption and foreign debt perception index positively influence exchange rates.

The exchange rate cannot mediate the relationship between corruption and economic growth because, based on GDP-based data, the spending sector that contributes the most to the economy is the household spending rate. The magnitude of the rate of export value is still smaller than household consumption. The contribution of exports to the exchange rate can be seen from the more goods exported and the more foreign currencies will come in so that our currency will be appreciated. The recession of currencies indicates that a country's economic activity is improving, and the goods produced are becoming more expensive in international markets.

5. Conclusions

Based on the results of the study, the conclusion is that (i) the magnitude of the level of corruption has a positive effect on foreign capital growth, (ii) the degree of the corruption level hurts the exchange rate, (iii) foreign capital level has no effect on economic growth (iv) exchange rates do not influence the growth of the economy (v) the extent of corruption has no impact on economic development (vi) the foreign capital can mediate the relationship between the rate of corruptions and the economy growth (vii) the rates of exchange are not capable of mediating the relation between corruption and economic growth.

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