The Moderating Role of Institutional Quality on the Effect of Household Consumption and Government Expenditure on Economic Growth in Indonesia

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Abstract

The magnitude of household consumption and government expenditure does not guarantee accelerated economic growth without being supported by sound institutional quality, particularly corruption control, which remains a major challenge in Indonesia's governance. This study aims to analyze the moderating role of institutional quality in the effect of household consumption and government expenditure on economic growth in Indonesia. This study employs a quantitative explanatory approach using time series data for the period 2006–2025, obtained from the official World Bank website. The analysis techniques used are multiple regression and Moderated Regression Analysis (MRA). The results show that household consumption (β = 3.489; sig = 0.017) and government expenditure (β = 1.379; sig = 0.015) have a positive and significant effect on economic growth. Institutional quality is able to moderate and strengthen the effect of household consumption (β = 9.100; sig = 0.018) and government expenditure (β = 1.890; sig = 0.013) on economic growth, with an R^2 of 0.842. These findings confirm that corruption control and improved governance are key to optimizing the effectiveness of fiscal policy and domestic consumption on sustainable economic growth.

***Keywords**: Household Consumption, Government Expenditure, Economic Growth, and Institutional Quality.*

A. INTRODUCTION

Development is a continuous process of economic activity aimed at improving societal welfare (Indah et al., 2025). In developing countries, development faces a dilemma between economic growth and equitable distribution, prompting governments to intervene through public expenditure. However, the effectiveness of such intervention is determined by institutional quality, namely the capacity of institutions to design, implement, and evaluate policies. The apparent social reality is that developmental success is measured not only by economic growth but also by the credibility and transparency of state institutions in managing resources (Hutagaol et al., 2024).

The success of economic development is measured through economic growth, which reflects the level of societal welfare (Widia, 2024). The higher a country's economic growth, the higher the welfare level of its society, supported by increased consumption of goods and services (Ariyani & Saskara, 2023). Economic growth is explained through the Neoclassical growth theory (Solow-Swan Growth Model, 1956), which states that long-run output growth is determined by capital accumulation, labor growth, and technological progress (Mankiw, 2022). Based on economic growth theory, this process relates to the increase in the production of goods and services within a society's economic activities, thus constituting a single-dimensional form of development measured through increases in production output and national income (Sukirno, 2008). This study employs two main components of aggregate expenditure, namely household consumption and government expenditure, with institutional quality serving as a moderating variable.

Household consumption refers to all expenditures used to fulfill household needs in the form of goods and services to meet the necessities of life within a certain period (Wahyu et al., 2021). This consumption behavior is explained through the Keynesian consumption function theory (Absolute Income Hypothesis) developed by John Maynard Keynes, which states that the level of household consumption is determined by the amount of current disposable income, where consumption increases as income increases, but at a smaller proportion than the increase in income itself (Mankiw, 2022). The relationship between household consumption and economic growth is evident in empirical findings showing that the increase in household consumption, including that driven by the expansion of digital financial inclusion, contributes significantly to strengthening aggregate demand and supports the acceleration of Indonesia's national economic growth (Alwahidin et al., 2023). This is consistent with findings that household consumption, together with investment and government expenditure, are important determinants of economic development outcomes at the regional level (Yolanda Putri et al., 2024).

Government expenditure refers to all spending incurred by both central and local governments to finance the provision of public goods and services, state administration, and development programs within a given budget period. Government expenditure is explained through Wagner's Law, developed by the German economist Adolph Wagner, which states that as a country's national income grows, the proportion of government expenditure to GDP tends to increase due to the rising demand for the provision of public goods, regulation, and the welfare functions of the state (Mankiw, 2022). Furthermore, from the perspective of Keynesian fiscal policy, government expenditure serves as one of the components of aggregate demand that can be used as a stabilization instrument to boost national output, particularly when the economy is operating below full capacity. The relationship between government expenditure and economic growth is conditional, as government expenditure can positively drive growth when accompanied by governance that is free from corruption, whereas under conditions of weak corruption control, its effect may instead be negative (Nguyen & Bui, 2022). Based on research findings, the relationship between government expenditure and economic growth is not always consistent and largely depends on the efficiency of budget allocation in each country (Olaoye et al., 2020). In Indonesia itself, government expenditure, together with special allocation funds and investment, has been proven to contribute significantly to increasing economic growth and societal welfare at the regional level (Mega Rosita & Budhi, 2024).

Institutional quality can be understood as the capacity of a governmental institution to perform governance functions effectively, which is an important factor in ensuring that fiscal policy, including government expenditure, can operate efficiently and contribute positively to the economy of a region or country (Bonita & Widyawati, 2020). Institutional quality is explained through New Institutional Economics theory, developed by Daron Acemoglu and James A. Robinson, which states that the success of a country's economic development is largely determined by the quality of its political and economic institutions. Countries with inclusive institutions, which guarantee property rights, law enforcement, and government accountability, tend to be more capable of translating fiscal policy (including consumption and government expenditure) into sustainable economic growth, compared to countries with extractive institutions that are prone to corruption and abuse of power (Acemoglu & Robinson, 2019). This theory is consistent with research conducted by Efayena & Olele (2024), whose findings state that institutional quality operates conditionally within the relationship between fiscal policy and economic growth, whereby the correlation between fiscal policy and institutional quality can either strengthen or weaken the impact of such policy on national output, depending on the level of governance effectiveness possessed by a country.

According to a statement issued by the Indonesian Ministry of Finance, Sri Mulyani reported that Indonesia's economic growth declined compared to the previous year and failed to reach the targeted level in 2024. One contributing factor was that household consumption had not grown sufficiently to support economic growth, despite the ongoing economic recovery. Meanwhile, government expenditure in 2024 experienced a surge due to the program of relocating the national capital, as well as additional spending to provide support as Indonesia faced challenges across various sectors (CNBC Indonesia, 2025). The detailed data are presented in Table 1 as follows:

Table 1. Household Consumption, Government Expenditure, Economic Growth, and Institutional Quality Data in Indonesia 2019–2025

Year	Household Consumption (Constant 2015 US$)	Government Expenditure (Current US$)	Economic Growth (Annual %)	Institutional Quality (Approx. -2.5 to +2.5)
2019	2,212,919	98,576	5.02	0.312
2020	2,135,694	102,260	-2.07	0.214
2021	2,163,233	109,716	3.70	0.147
2022	2,253,557	101,434	5.31	0.233
2023	2,345,109	102,219	5.05	0.273
2024	2,444,984	108,138	5.03	0.180
2025	2,547,746	108,891	5.10	0.189

Source: World Bank (2026)

Based on Table 1, the development of household consumption, government expenditure, economic growth, and institutional quality in Indonesia during the period 2019–2025 is presented. Household consumption shows a relatively stable increase, from US$2,212.919 billion in 2019 to US$2,547.746 billion in 2025, with a temporary decline in 2020 to US$2,135.694 billion, attributable to the impact of the COVID-19 pandemic. Government expenditure tends to fluctuate, reaching its highest level in 2021 at US$109,716 million before declining in subsequent periods. Economic growth experienced a drastic decline of -2.07 percent in 2020, before recovering and remaining relatively stable within the range of 5.02–5.31 percent throughout 2022–2025.

Institutional quality is measured using the Worldwide Governance Indicators (WGI) score from the World Bank, on a scale ranging from -2.5 (worst) to +2.5 (best). During the period 2019–2025, Indonesia's institutional quality score remained consistently positive, though fluctuating, ranging from 0.147 in 2021 to 0.312 in 2019. Based on the interval classification commonly used in empirical studies, all of the annual scores fall within the moderate category, with values between -0.5 and 0.5, not yet reaching the 0.5 threshold required for the "good" category. This condition indicates that Indonesia's governmental institutions have functioned at a basic level, but have not yet achieved optimal performance in terms of corruption control and government effectiveness. This relatively weak institutional level provides the basis for the presumption that institutional quality plays a moderating role, either strengthening or weakening the effect of household consumption and government expenditure on economic growth.

There are data that are not directly proportional to the theory underlying each variable. According to Keynesian demand theory, household consumption and economic growth are expected to exhibit a unidirectional and positive relationship; however, in 2023 and 2024, household consumption continued to increase while economic growth actually slowed, declining from 5.31 percent to 5.05 percent and 5.03 percent, respectively. Furthermore, with respect to government expenditure and economic growth, Wagner's Law assumes that an increase in government spending will drive proportional growth; however, in 2020, government expenditure increased concurrently with an economic slowdown of -2.07 percent. In 2022, government expenditure decreased while economic growth reached its highest point at 5.31 percent, and in 2023 and 2024, government expenditure increased again while economic growth instead slowed, making these four years points of inconsistency with the theory.

Furthermore, with respect to institutional quality as a moderating variable in the relationship between household consumption and government expenditure on economic growth, a pattern was found that is inconsistent with New Institutional Economics theory, which posits that higher institutional quality should strengthen the effectiveness of fiscal policy and domestic consumption on economic growth. In 2020-2021, the institutional quality score actually declined successively from 0.312 to 0.214 and 0.147; however, economic growth in 2021 was still able to recover to 3.70 percent despite the weakening institutional conditions. This indicates that the moderating effect of institutional quality during this period did not strengthen the consumption growth relationship as predicted by theory. In 2022, when institutional quality increased to 0.233 and government expenditure instead decreased to US$101.434 billion, economic growth nevertheless reached its highest point at 5.31 percent. This condition indicates that institutional strengthening does not always move in the same direction as theoretically predicted in driving growth, suggesting that its moderating role is not linear in nature.

Based on the phenomena and data described above, a theoretical gap exists within this study. Therefore, further research is needed to empirically examine the relationships among these variables through a quantitative approach. Based on the foregoing discussion, the research problems of this study are formulated as follows: a) Does household consumption influence economic growth in Indonesia; b) Does government expenditure influence economic growth in Indonesia; c) Can institutional quality moderate the influence of household consumption on economic growth in Indonesia; d) Can institutional quality moderate the influence of government expenditure on economic growth in Indonesia.

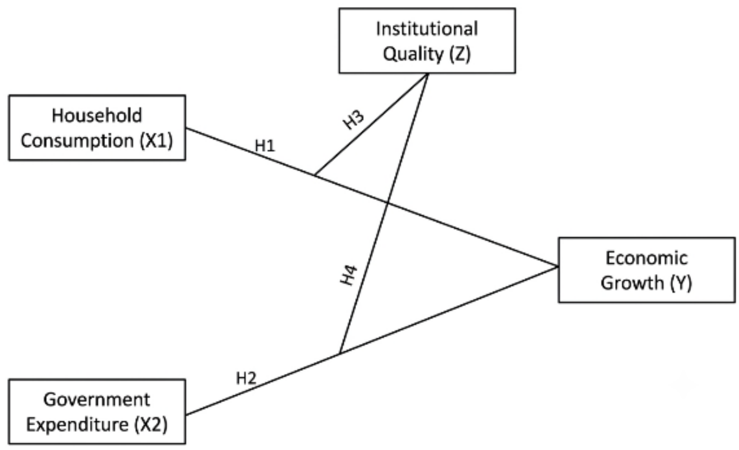

Figure 1. Conceptual Framework

The hypotheses formulated in this study are as follows:

H_1: Household consumption has an effect on economic growth in Indonesia.
H_2: Government expenditure has an effect on economic growth in Indonesia.
H_3: Institutional quality moderates the effect of household consumption on economic growth in Indonesia.
H_4: Institutional quality moderates the effect of government expenditure on economic growth in Indonesia.

B. METHOD

This study employs a quantitative method with an explanatory approach. This research uses secondary data sources in the form of time series data. The data collection technique was carried out by analyzing the completeness of data related to the research object through direct access to the official World Bank website, comprising data on household consumption, government expenditure, and economic growth in Indonesia for the period 2006-2025.

The data analysis technique used in this study is multiple regression analysis, aimed at examining whether there is an increase or decrease in the variables under study, as well as Moderated Regression Analysis (MRA) to test the role of the moderating variable in strengthening or weakening the relationship. The equation models used in this study are as follows:

$$\boxed{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3Z + \beta 4(X1*Z) + \beta 5(X2*Z) + e}$$

Prior to conducting the Regression and MRA tests, this study first performed a stationarity test using the Augmented Dickey-Fuller (ADF) test to ascertain whether the time series data are stationary, followed by classical assumption tests, hypothesis testing, and the coefficient of determination (R^2) (Widiarjono, 2013). Data processing in this study was carried out using EViews software. EViews was selected on the grounds that this software is specifically designed for time series data analysis in econometrics and supports the estimation of Moderated Regression Analysis (MRA) through the direct construction of interaction variables within the regression equation (Winarno, 2017).

C. RESULT AND DISCUSSION

This section presents the results of the data processing conducted to address the research problems and test the research hypotheses as outlined in the research methods. The research results are presented systematically, beginning with the data stationarity test, the classical assumption tests, and culminating in the results of the multiple regression and Moderated Regression Analysis (MRA) tests.

1. Data Stationarity Test

Table 2. Results of the Data Stationarity Test

Variable	ADF Probability	$\alpha = 0.05$	Interpretation
Household Consumption (X1)	0.038	0.05	Stationary
Government Expenditure (X2)	0.001	0.05	Stationary
Economic Growth (Y)	0.029	0.05	Stationary
Institutional Quality (Z)	0.000	0.05	Stationary

Source: Processed using EViews 14 (2026)

Based on Table 2, the results of the data stationarity test (ADF) indicate that all variables in this study are stationary, with a Prob. ADF value < 0.05. Thus, all variables are considered suitable for use in the subsequent analysis.

2. Classical Assumption Test

The following presents several tests conducted within the classical assumption test:

a. Normality Test

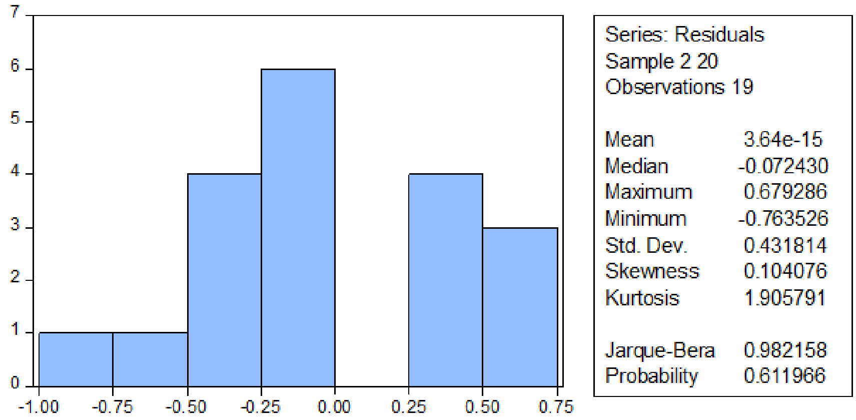

Figure 2. Results of the Normality Test

Source: Processed using EViews 14 (2026)

Based on Figure 2, the Jarque-Bera test result is 0.982, with a probability value of 0.611. Since the probability value is greater than 0.05, the data are considered to be normally distributed. This result indicates that the normality assumption is satisfied.

b. Autocorrelation Test

Table 3. Results of the Autocorrelation Test

Chi-Square Probability	**$\alpha = 0.05$**	**Interpretation**
0.141	0.05	No Autocorrelation

Source: Processed using EViews 14 (2026).

Based on Table 3, the results of the Breusch-Godfrey Serial Correlation LM Test show a Prob. Chi-Square value of 0.141, indicating that no autocorrelation occurs in this study.

c. Heteroscedasticity Test

Table 4. Heteroscedasticity Test

Method	**Chi-Square Probability**	**$\alpha = 0.05$**	**Interpretation**
White Test	0.341	0.05	No Heteroscedasticity

Source: Processed using EViews 14 (2026)

Based on Table 4, the results of the White Test yield a Prob. Chi-Square value of 0.341, which is greater than 0.05, indicating that no heteroscedasticity occurs.

3. Multiple Regression Analysis and Moderated Regression Analysis (MRA)

Table 5. Multiple Regression Analysis

Moderated Regression Analysis (MRA)	
Variable	**Coefficient**
Constant	40.101
Household Consumption	3.489
Government Expenditure	1.379
Institutional Quality	4.411
Household Consumption × Institutional Quality	9.100
Government Expenditure × Institutional Quality	1.890

Source: Processed using EViews 14 (2026)

Based on Table 5, the results of the multiple regression and Moderated Regression Analysis (MRA) equation models are obtained as follows:

$$\mathbf{Y} = \boldsymbol{a} + \boldsymbol{b_1 X_1} + \boldsymbol{b_2 X_2} + \boldsymbol{b_3 Z} + \boldsymbol{b_4 (X_1 \times Z)} + \boldsymbol{b_5 (X_2 \times Z)} + \boldsymbol{e}$$

$$\mathbf{Y} = \mathbf{40.101} + \mathbf{3.489}\boldsymbol{X_1} + \mathbf{1.379}\boldsymbol{X_2} + \mathbf{4.411}\boldsymbol{Z} + \mathbf{9.100}(\boldsymbol{X_1} \times \boldsymbol{Z}) + \mathbf{1.890}\ (\boldsymbol{X_2} \times \boldsymbol{Z}) + \boldsymbol{e}$$

Based on the equation above, the constant value of 40.101 indicates that if household consumption, government expenditure, and institutional quality are held constant or equal to zero, the predicted value of economic growth is 40.101 units. This constant represents the baseline value of economic growth influenced by factors outside the research variables.

The regression coefficient value for household consumption is 3.489 and is positive, indicating that every one-unit increase in household consumption will increase economic growth by 3.489 units. This coefficient result indicates that household consumption serves as the main component forming aggregate demand and economic growth.

The coefficient value for government expenditure is 1.379 and is positive, indicating that every one-unit increase in government expenditure contributes to an increase in economic growth of 1.379 units. It can be stated that the impact of government spending on economic growth remains smaller than the impact of household consumption. This indicates that the utilization of the government budget has not yet been carried out efficiently.

In addition to functioning as a moderating variable, institutional quality also has a direct effect on economic growth of 4.411 and is positive, indicating that improvements in institutional quality can directly contribute to increased economic growth. Evaluations of institutional quality, such as regulatory effectiveness, governance, and law enforcement, can drive an increase in economic growth.

The coefficient value for the interaction between household consumption × institutional quality is 9.100 and is positive. This result indicates that institutional quality is able to strengthen the influence of household consumption on economic growth. It can therefore be stated that the effect of household consumption on economic growth becomes considerably greater than under conditions of weak institutions. Sound institutions create incentives and certainty that optimize household consumption.

The coefficient value for the interaction between government expenditure × institutional quality is 1.890 and is positive. This result indicates that institutional quality is able to strengthen the influence of government expenditure on economic growth. It can thus be stated that sound institutional quality enhances the effectiveness of government spending, although the increase is not as large as that observed for household consumption.

4. Hypothesis Testing

Table 6. Results of the Hypothesis Test

Variable	Sig.	Decision
Household Consumption	0.017	H1 Accepted
Government Expenditure	0.015	H2 Accepted
Household Consumption × Institutional Quality	0.018	H3 Accepted
Government Expenditure × Institutional Quality	0.013	H4 Accepted

Source: Processed using EViews 14 (2026)

Based on Table 6, the results of the first hypothesis test indicate that household consumption has a positive effect on economic growth in Indonesia, with a significance value of 0.017 < 0.05; therefore, hypothesis H1 is accepted. The results of the second hypothesis test indicate that government expenditure has a positive effect on economic growth in Indonesia, with a significance value of 0.015 < 0.05; therefore, hypothesis H2 is accepted.

The results of the third hypothesis test indicate that institutional quality is able to moderate the effect of household consumption on economic growth in Indonesia, with a significance value of 0.018 < 0.05; therefore, H3 is accepted. The results of the fourth hypothesis test indicate that institutional quality is able to moderate the effect of government expenditure on economic growth in Indonesia, with a significance value of 0.018 < 0.05; therefore, H4 is accepted.

5. Coefficient of Determination (R^2)

Table 7. Coefficient of Determination (R^2) Test

Variable	R-squared	R-squared (%)
Research Model	0.842	84.20%

Source: Processed using EViews 14 (2026)

Based on Table 7, the results of the coefficient of determination (R^2) test show an R-squared value of 0.842, or 84.20%. This value indicates that the variables of household consumption, government expenditure, and institutional quality are simultaneously able to explain 84.20% of economic growth in Indonesia, while the remaining 15.80% is explained by other variables outside this research model. Referring to the criteria of Gujarati and Porter (2009), an R^2 value > 0.70 is categorized as strong; thus, the R^2 value of 0.842 falls within the strong category.

The results of the first hypothesis test indicate that household consumption has a positive effect on economic growth in Indonesia, with a positive and significant regression coefficient value, indicating that every increase in household consumption accelerates the growth rate of gross domestic product. This finding is consistent with the Keynesian consumption function theory, or the Absolute Income Hypothesis, which explains that the level of household consumption is a function of disposable income received in the current period, such that an increase in income drives an increase in consumption, albeit at a smaller proportion than the increase in income itself, as a portion of income is allocated to savings (Mankiw, 2022). This theoretical framework explains the underlying mechanism behind the research findings, given that household consumption constitutes the largest component in the structure of gross domestic product (GDP) based on the expenditure approach, such that changes in society's purchasing power are directly transmitted to aggregate demand, driving production activity, expanding employment absorption, and increasing national income through the multiplier effect mechanism. This finding is supported by Sugiarto & Wibowo (2020), who demonstrated a positive effect of final household consumption expenditure on gross regional domestic product, whereas Ferdiansah et al. (2022) found a negative effect within a certain time span, indicating that the direction of the consumption effect is conditional upon the structure of the economy and the composition of aggregate expenditure.

The relevance of the Absolute Income Hypothesis is not static but evolves in line with transformations in the structure of society's income, particularly the shift in consumption patterns from basic necessities toward non-food consumption and digital credit-based consumption, which has not been widely and explicitly integrated into classical consumption function models in prior studies. Accordingly, this study extends the relevance of Keynesian theory within the contemporary Indonesian economy, which is increasingly influenced by financial literacy and ease of access to consumer financing. This underscores the importance of fiscal and monetary policies that maintain price stability and employment creation as instruments for sustaining the real purchasing power of society, while simultaneously encouraging the diversification of growth sources through the strengthening of investment and real-sector productivity, so that the national economy does not become excessively dependent on domestic consumption alone.

The results of the second hypothesis test indicate that government expenditure has a positive effect on economic growth in Indonesia, with a positive and significant regression coefficient value, indicating that an increase in government spending accelerates the rate of national economic growth. This finding is consistent with Wagner's Law, which explains that government expenditure relative to gross domestic product tends to increase in line with the growth of a country's national income, as a consequence of the rising demand for the provision of public goods, regulation, and the welfare functions of the state (Mankiw, 2022).

Based on the research findings, the expansion of economic activity drives society's demand for higher quality and broader coverage of public services, prompting the government to respond by increasing budget allocations for the education, health, infrastructure, and administration sectors, which in turn can strengthen production capacity and accelerate economic growth through the mechanism of government spending as a component of aggregate demand. This study is consistent with research conducted by Sukartini & Saleh (2012), who tested Wagner's Law and found that the law applies partially at both levels of government, as well as with the study by Simartmata & Iskandar (2022), which found that government expenditure has a positive and significant effect on economic growth. Wagner's Law in Indonesia can no longer be explained solely by the expansion of the classical functions of the state as originally formulated by Wagner in the nineteenth century, but also by the demands of fiscal decentralization following regional autonomy, which has broadened the scope of government intervention in basic service sectors. Accordingly, this study enriches the contemporary interpretation of Wagner's Law within Indonesia's decentralized fiscal structure. This underscores the importance of the quality of government budget allocation, rather than merely its nominal magnitude, as a determinant of the effectiveness of fiscal policy in fostering sustainable economic growth, while also serving as a basis for policy recommendations directing state expenditure toward productive sectors, so that increases in government spending are genuinely translated into long-term increases in economic capacity.

The results of the third hypothesis test indicate that institutional quality is able to moderate the effect of household consumption on economic growth in Indonesia. Based on the Moderated Regression Analysis (MRA), institutional quality is found to strengthen the effect of household consumption on economic growth in Indonesia. This finding is consistent with New Institutional Economics theory, as formulated by North (1990), which asserts that both formal and informal institutions, such as legal certainty, bureaucratic effectiveness, and corruption control, determine the incentive structure for economic actors, such that high institutional quality reduces transaction costs and the risks of uncertainty, thereby enabling each unit of household spending to work more efficiently in driving economic output.

Institutional quality strengthens the effect of household consumption on economic growth because sound governance, such as legal certainty, government effectiveness, and low levels of corruption, allows increases in society's purchasing power to be more readily absorbed by the business sector into production and new employment, rather than being dissipated by convoluted bureaucracy or unproductive corrupt practices, such that each increase in consumption has a greater impact on economic growth. This finding is consistent with the study conducted by Nguyen et al. (2018), which found that institutional quality can moderate the relationship between domestic economic variables and output growth, as well as with the study by Liko (2024), which demonstrated the role of institutions as a significant determinant in enhancing the effectiveness of economic variables on long-term growth, and with the study conducted by Rozi (2023), which found that governance indicators have a significant positive effect on economic growth in ASEAN countries. This finding directs policymakers' attention toward not treating consumption stimulus and institutional strengthening as two separate agendas, but rather as a single, complementary policy package, in which bureaucratic reform, law enforcement, and anti-corruption measures need to proceed in tandem with policies that sustain society's purchasing power, so that the impact of consumption on economic growth can be maximally realized.

The results of the fourth hypothesis test indicate that institutional quality is able to moderate the effect of government expenditure on economic growth in Indonesia. Based on the Moderated Regression Analysis (MRA), institutional quality is found to strengthen the effect of government expenditure on economic growth in Indonesia. This strengthening occurs because institutional quality determines the extent to which each unit of state spending is efficiently converted into real output, rather than merely determining the magnitude of the budget itself. In governments with sound governance, the processes of planning, procurement, and budget disbursement operate more transparently and accountably, such that funds spent are more accurately directed toward productive projects such as infrastructure, education, and health, rather than being absorbed by leakage, procurement corruption, or stalled projects resulting from weak oversight (Butkiewicz & Yanikkaya, 2011).

Effective bureaucracy also accelerates budget realization and reduces the administrative costs that typically erode the value of public spending, such that the multiplier effect of each increase in government expenditure on economic output becomes greater than in environments with weak institutions (Arvin et al., 2021). This finding is consistent with Efayena & Olele (2024), who demonstrated that the direction and strength of the moderating effect of institutional quality on the relationship between fiscal policy and growth is highly dependent on the level of institutional maturity of a given country. Accordingly, the significant positive result obtained in this study indicates that institutional quality in Indonesia has reached a sufficient threshold to enable government spending to function more optimally in fostering economic growth.

D. CONCLUSION

Based on the results and discussion of this study, it can be concluded that household consumption has a positive and significant effect on Indonesia's economic growth, government expenditure has a positive and significant effect on Indonesia's economic growth, institutional quality is able to moderate and strengthen the effect of household consumption on economic growth, and institutional quality is able to moderate and strengthen the effect of government expenditure on economic growth. The main contribution of this study lies in integrating the analysis of domestic demand (consumption) and fiscal policy (government expenditure) within a framework of institutional quality moderation, thereby providing concrete evidence that improvements in governance, corruption control, enhanced bureaucratic capacity, and strengthened accountability increase the effectiveness of macroeconomic policy instruments, namely economic growth. It is necessary to expand fiscal policy and demand stimulus, accompanied by improvements in the utilization of government expenditure and institutional reform, particularly through enhanced budget transparency, anti-corruption control mechanisms, strengthened public administrative capacity, and accountability, so that fiscal efforts and domestic stimulus can generate maximum and sustainable growth improvements.

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