

ABSTRACT

Since 2001, the Indonesian government has effectively run fiscal decentralization policy as a broad strategy to accelerate regional development. This fiscal decentralization policy has also brought major changes in expenditure growth districts in the province of Central Java.

This study aims to see direct relationship of fiscal decentralization on economic growth and indirect influence of decentralization on growth through its impact on inflation in the province of Central Java. The analysis focused on indicators of fiscal decentralization of direct expenditure, which is the ratio of direct local government spending to direct central government expenditure. This study uses series data in 2005-2010 with used path analysis.

The results showed that fiscal decentralization has positive and significant influences on inflation and economic growth. So is the inflation has positive influence on economic growth in the province of Central Java.

Key Words : Fiscal Decentralization, Inflation, Economic Growth and Central Java Province