

ABSTRACT

The role of local government is crucial because it directly manages the regional economy. Fiscal decentralization should ideally be able to encourage this role in creating regions that are independent in financial management and program financing. The objective of this research aims to examine the effect of fiscal decentralization on an inclusive economic development, especially by examining the literature on fiscal decentralization.

This study uses Fixed Effect Model as a parameter with panel data from 35 Districts/Cities in Central Java Province from 2015 to 2019. Secondary data was obtained from the Central Bureau of Statistics, Directorate General of Fiscal Balance, and Ministry of National Development Planning.

The results of estimations show that the variables of the degree of fiscal decentralization and the degree of fiscal independence do not have a significant effect on the inclusive economic development. However, GRDP in fact has a significant positive effect on an inclusive economic development. Meanwhile, the open unemployment rate variable has a negative significant effect on the inclusive economic development. Which means, if open unemployment rate decreases, this condition can help achieve an inclusive economic development in the Districts/Cities of Central Java Province.

Keywords: Fiscal Decentralization Degree, GRDP, Open Unemployment Rate, Inclusive Economic Development