

ABSTRACT

Fiscal sustainability indicates the government's ability to pay public debt in the future. Fiscal sustainability is a 'condition', hence in its analysis, it measuring with primary surplus and public debt. Intertemporal budget constraints require a positive relationship between public debt and primary surplus to achieve fiscal sustainability. Decision-making regarding whether a fiscal condition is sustainable or unsustainable can be conducted using the fiscal reaction function. Fiscal reaction function is a tool for analyzing fiscal sustainability and assesses the impact of other variables on the government's ability to repay public debt. Asia faces the threat of economic crisis due to high government debt. Additionally, there is a gap between the public debt to primary balance, where Asian public debt increase from 2011-2020, in contrast with declining primary balance from 2021-2020. This inconsistency then raises questions regarding Asian fiscal sustainability.

This study aims to analyze the problem of fiscal sustainability for twenty-four of Asian region and the government's response to the fiscal problems faced. This research used Fixed Effect Model (FEM) as the method. This research used observation data period 2002–2021 of 24 Asian region, there are Azerbaijan, Bahrain, Bangladesh, Bhutan, India, Indonesia, Iran, Israel, Japan, Jordan, Korea Selatan, Kuwait, Kyrgyz, Lebanon, Malaysia, Maldives, Mongolia, Oman, Pakistan, Qatar, Saudi Arabia, Sri Lanka, Thailand, dan Yemen (ASIA-24).

The findings show fiscal sustainability for ASIA-24 do not provide a clear conclusion regarding, as indicated by the insignificant of public debt to primary balance. Kuwait is the only country that has successfully achieved fiscal sustainability. Lastly, the variables of output gaps, crude oil prices, and political stability and absence of violence/terrorism are significant and positive to primary balance. Variables government expenditure, inflation, and dummy 2008 are significant and negative to primary balance. In other hand, the variables economic growth, voice and accountability, and control of corruption are insignificants to primary balance.

Keywords: Fiscal Sustainability, Intertemporal Budget Constraints, Primary Balance, Government Debt, Crisis 2008, Institutional Quality