

ABSTRACT

Consumption plays a crucial role as the main driver of economic growth, proven to support more than half of the ASEAN economy during the 2011-2020 period. On the other hand, Value Added Tax (VAT) is a vital instrument for state revenue, but has the potential to suppress consumption. The phenomenon of countries with high VAT rates recording strong consumption, and vice versa, indicates the complexity of this relationship.

This study aims to analyze the impact of VAT rates on consumption in ASEAN, taking into account the control variables of income, inflation, and interest rates. This study uses a quantitative method with panel data regression analysis. The Random Effect model is applied to panel data covering 9 ASEAN countries during the 2011-2020 period, sourced from the World Bank. The dependent variable is consumption, the independent variable is VAT, and the control variables include income, inflation, and interest rates.

The estimation results show that VAT and inflation have a negative and significant effect on consumption. Income is found to have a positive and significant effect, while interest rates do not have a statistically significant effect. These findings imply that policymakers need to pay attention to the balance between efforts to increase state revenue through VAT and its impact on public consumption, given that VAT has been proven to have a significant negative impact.

Keywords: *Consumption, value added tax, income, inflation, interest rate, ASEAN*

