ABSTRACT

Fiscal reaction function captures how fiscal policy reacts to economy dynamics. Fiscal policy is designed for "leaning against the wind" where automatic stabilizer exists if fiscal policy character is countercyclical. Asian Emerging Economies are implying deficit fiscal policy and they use debt to finance its deficit. According to Ricardian Fiscal Regime to maintain fiscal sustainability government should make tax adjustment in the future. In order to achieve fiscal sustainability, institutional quality is the key role.

This research aims to analyze the effect of business cycle, debt accumulation, oil price, and control of corruption to Fiscal Reaction Function estimated with Fixed Effect Method (FEM). This research used observation data period 2005 – 2017 of Asian Emerging Economies, there are China, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam. Business cycle fluctuation measured in output gap. Cyclical component estimated with Hodrick-Prescott Filter.

The results of this research find that fiscal policy character in Asian Emerging Economies is procyclical. Where fiscal policy tends to expand during expansion and contraction during recession. There is Ricardian Fiscal Regime phenomenon that government behavior is rational in debt accumulation. Oil price has positive insignificant impact to primary balance. Negative significant relationship between control of corruption to government budget caused by lower fiscal effort.

Keywords : Fiscal Reaction Function, Business Cycle, Fiscal Sustainability, Oil Price, Corruption, Asian Emerging Economies, Hodrick-Precott Filter, Fixed Effect Method