ABSTRACT

This study examines the relationship between tax revenue and government expenditure in Indonesian provincial governments and evaluates their level of fiscal dependence. The study uses panel data from 33 provinces during the period 2011–2024 obtained from the Directorate General of Fiscal Balance (*Direktorat Jenderal Perimbangan Keuangan (DJPK)*), Ministry of Finance. The analysis applies panel unit root tests, the Pedroni panel cointegration test, Granger causality analysis, a Vector Error Correction Model (VECM), and Klassen typology.

The results indicate the existence of a long-run equilibrium relationship between tax revenue and government expenditure. However, the Granger causality test shows no short-run causal relationship between the two variables, supporting the institutional separation hypothesis. The VECM results suggest that deviations from long-run equilibrium are primarily corrected through adjustments in government expenditure rather than tax revenue.

The Klassen typology classification further reveals that most provinces exhibit low fiscal independence and remain dependent on central government transfers. Overall, the findings suggest that although fiscal decentralization in Indonesia has created long-run fiscal linkage, provincial governments still face constraints in achieving stronger fiscal autonomy.

Keywords: tax revenue, government expenditure, fiscal decentralization, panel data, cointegration, Klassen typology.