

ABSTRACT

The implementation of local autonomy and fiscal decentralization in Indonesia is an strategic step to increase the local independence in the financial and strengthen the local economy base. Consequences of the implementation of local autonomy and fiscal decentralization is devolution that followed the budget allocation and the provision of public goods to local authorities. Although the local has been given great authority to manage potential sources of local revenue, the fact the level of local independence in the financial sector have not shown significant progress. The local government is still dependent on the central government to support development activities and public services for the community at the local level. The financial dependence appears in the gauge of the portion of the balance funds as the largest source of income for the region.

This research aims to prove empirically the influence of gross regional domestic product, balance funds, and regionally original revenue to local government expenditure in regencies and cities at Central Java Province.

The data that used in this research are quantitave data with the type of panel data in the form of an annual. Time series data started from the period 2007 to 2014, while its cross section data are 35 regencies and cites in Central Java Province. From the merger of two kinds of data has yielded 280 observations. The analysis method that used is panel data regression with fixed effects model approach.

The important findings of this research indicate that gross regional domestic product, balance funds, and regionally original revenue have significant impact on local government expenditure of regencies and cities at Central Java Province.

Keywords: Local government expenditure, gross regional domestic product, balance funds, and regionally original revenue