

## ABSTRACT

Regional financial capacity and performance is one of the measurements that can be used to see how the capacity of the region to run the regional autonomy. There are two regional financial dimensions which are revenue side and expenditure side. The revenue side is reflected by PAD meanwhile the expenditure side is depicted by regional expenditure.

This study aims to analyze the regional financial determinant of the government in regional autonomy and to detect fiscal illusion in provincial government in Indonesia. Regional financial determinant analysis is used by utilizing simultaneous equation where the simultaneous relationship is shown by interplay relationship between PAD and provincial expenditure. Fiscal illusion detection method provides revenue enhancement. The sample of this research covers all province in Indonesia from 2005 to 2008.

The result of this study shows that there is significant relationship between PAD and regional expenditure. PAD is able to increase the regional expenditure 0,67 million rupiah every 1 million PAD increase, whereas the regional expenditure can improve PAD 0,07 million rupiah every 1 million regional expenditure increase. In addition, this study also found that there was no fiscal illusion in provincial financial performance.

**Key words :** financial determinant performance, PAD, regional expenditure, fiscal illusion.