

ABSTRACT

Until right now, Central Java still be faced to problem in enhance of economic growth. Economic growth of Central Java in last six periods showed that static but lower better than other provinces in Java Island and Indonesia. Besides that, value of final goods and services or Gross Regional Domestic Product (GRDP) were lower better than other provinces in Java Island. Therefore, it need to analysis the factors who support economic growth in this region and how much effect this variable to economic growth in Central Java.

This study used secondary data analysis with panel data, which consist of time series data for periods of 2004-2009 and cross section data of regency/ municipality in Central Java. The approaches used to estimate the regression model in this study is Fixed Effect Model (FEM), or Least Square Dummy Variable (LSDV) because this approaches used dummy variable in regression model to explained the different characteristic and resources of each region.

The regression result showed that capital expenditure variable has a positive and significant impact on economic growth. Beside that, indicator of fiscal decentralization has't effect on economic growth. And then labor force and education have a positive and significant impact on economic growth.

Keywords: *economic growth, capital expenditure, fiscal decentralization, labor force, education, Fixed Effect Model (FEM)*