ABSTRACT

DWI MUSLIANTI. Impact of Local Fiscal Policy on Poverty in Indonesia in Decentralization Era. Supervised under WIWIEK RINDAYATI and YETI LIS PURNAMADEWI.

Local government spending has been increasing from year to year during decentralization era, which the largest proportion derives from central government. Nevertheless, the economic performance, mainly poverty decrease very slowly, far from the government target in 2009. Therefore, this research has aim 1) to determine the dynamic of local fiscal, output and poverty, 2) to determine factors that affect fiscal policy, output and poverty, 3) to analyze the impact of fiscal policy on output and poverty. This study uses simultaneous equations model (SEM) to identify the factors that affect local government revenues and spending and their impact on fiscal and economic performance of regions. The result shows that government revenue is affected by GDRP, fiscal gap, and population. Government spending is affected by GDRP, revenue, and spending the previous year. Increased government revenues and spending has a positive impact on economic performance and negative impact on poverty. Combination of spending on education and health, and agriculture provides the greatest impact to decrease poverty.

Keywords: local fiscal policy, poverty, simultaneous equation models (SEM)