ABSTRACT

TITUK INDRAWATI. An Analysis of Role of Capital Expenditure as Government Investment on Economic in East Indonesia Year 2005-2009. Under direction of HERMANTO SIREGAR and NUNUNG NURYARTONO.

How important was government investment in enhancing The East Indonesia’s economy? Using a dataset of regional government spending and panel data (First-difference Generalized Method of Moments), it show that regional government in East Indonesia still depend on central government for their government revenue and policy. Fiscal independence from regional government in East Indonesia were low and declining every year. The research also find that government investment especially on infrastructure (irrigation, street, and telecommunication/network) have positive impact for economic growth in East Indonesia. And also have complemer relation with private investment, which mean both investment have contribution on accumulation investment for higher output and aggressive economic growth. These results suggest that regional government must explore their potential resources to increase their own-source revenue (pendapatan asli daerah, or PAD) so they can have higher fiscal independence. Regional government can create favorable environment to attract private investor so later on it will provide jobs and become source of government revenue.

Keywords: government investment on infrastructure, economic growth, fiscal independence, panel data (FD GMM)