ABSTRACT

This article tries to determine the impact of the new fiscal decentralization policy on the regional economic growth in Indonesia during the fiscal year of 2001-2002. This study uses four econometrical models, each of them contains four different proxies of fiscal decentralization to measure the effectiveness of its implementation in each regions. The results of the study reveal that the equalization fund transfer scheme from the central government did not significantly affect the regional economic growth. Furthermore from the result also can be concluded that the ineffectiveness of the new fiscal decentralization implementation is caused by the lack capability of budget expenditure management in most of the regions. Some suggestions and recommendations for the better implementation in the future are offered in the last section of this paper.

Keywords. Fiscal decentralization, economic growth, GRDP