



Impact of Fiscal Transparency on Increased Government Spending during Indonesian Election

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Abstract. The Indonesian government is actively promoting good governance, one of which is budgetary openness. Budget transparency is very crucial in municipal government. Its emphasis on transparency makes logical, as it serves a crucial purpose in democracies. In order to increase their prospects of winning reelection, ambitious incumbents increased government spending and decreased taxes during his administration. Fiscal transparency may play an essential role in influencing the political budget cycle, preventing needless content. These studies usually show that increased fiscal transparency leads to better financial performance. Based on the occurrence, academics are interested in analyzing the political budget cycle to determine whether fiscal transparency implemented in Indonesia will effect the political budget carried out by the incumbent during his tenure as Incumbent. This study collected data on social assistance spending from 398 districts and cities in Indonesia that held regional elections.

This study relied on secondary data collection methods. In this study, local government spending is measured using variables such as social expenditure and capital expenditure, and transparency is collected from LKPD via the Audit Aboard of the Republic of Indonesia opinions measured using dummy. This study was conducted utilizing e-views and an analysis technique called panel data analysis, specifically the random effect model. This study demonstrates that regions with lower levels of fiscal transparency exhibit political budget cycles in their social spending, whereas locations with high fiscal transparency exhibit political budget cycles in their capital expenditures. The study's findings revealed that political budgets can still emerge even in areas with a high level of transparency. This attempts to convey a signal to voters to support the prospect of re-election of the incumbent so that the incumbent tries to anticipate their defeat by conducting "budget politicization" which is to carry out a budget deficit by increasing the future allocation of public funds in accordance with his desire, which seeks to captivate the electorate in order to subsequently increase the number of votes elected.

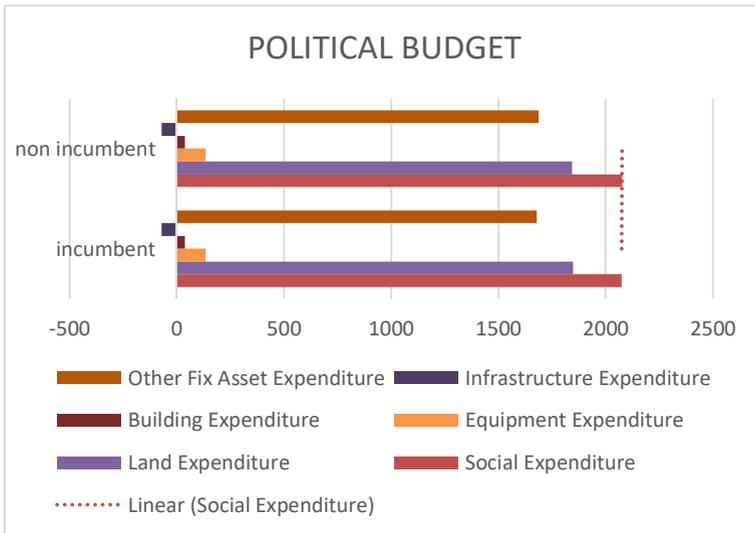
Keywords: Fiscal Transparency, Incumbent, Election, Government Spending

1 INTRODUCTION

Inpres No. 7 Tahun 2015, which addresses actions to prevent and eradicate corruption, directs each central and regional government agency to create a website with the goal of improving public services while also providing quick and easy information to the public 3. According to Peraturan Pemerintah No. 71 Tahun 2010, one of the main characteristics of the government structure and services provided is the influence of the political process, which aims to harmonize the interests of all people's welfare; however, the Incumbent, as someone with executive authority in managing regional finances, frequently engages in acts of fiscal manipulation to political interests, resulting in the emergence of political unrest. The political budget cycle is a series of government budget components that coincide with the election cycle. This term is most typically used to describe an increase in government spending during an election year that is attributed to the incumbent's attempt to create value in the eyes of the public in order to get re-elected. Political budgets often include budget instruments that voters love and are directly related to [9].

Political budgeting in Indonesia is expressed in regional leaders' political commitments, which are then translated into work programs and included in the Anggaran Pemerintah Daerah (APBD). The existence of expenditure budgets frequently draws attention to accelerate the attainment of regional leaders' goals, particularly for political reasons, resulting in the abuse of the APBD that does not fit with the value of money, namely being economical, efficient, and effective.

Fig. 1 Incumbent vs Non-Incumbent on Government Spending in Indonesia (Gultom, 2024)



Based on figure 1. Indonesian Regional head leveraged government budget policies from APBD to their advantage spending up to 2000% on average during election year. This confirms the presence of practice political budget cycle. According to [1], [10], [29] the "political budget cycle" emerges as a result of an imbalance in information about incumbent heads' ability to regulate the production of public goods, capital expenditure, grant, and social assistance spending usually skyrockets during election years. Fiscal transparency is very crucial in municipal government especially Indonesian. Fiscal transparency in regional financial management will eventually lead to horizontal accountability between regional governments and their communities, resulting in clean, effective, efficient, accountable, and responsive to community aspirations and interests [14;2;5].

According to Inpres No. 7 Tahun 2015, which addresses actions to prevent and eradicate corruption, directs each central and regional government agency to create a website with the goal of improving public services while also providing quick and easy information to the public. However, the level of transparency in Indonesia is still low at 16.84% [35]. Research by [28], [22], [17] on the level of fiscal transparency and political budget in OECD countries. They found that transparency influences fiscal manipulation by Incumbents before elections. They argue that countries with higher openness engage in less budgetary manipulation, whereas countries with lower transparency frequently overestimate their income, allowing them to deliver more public services. [27] found that increased budget transparency leads to lower perceptions of fiscal manipulation during elections, emphasizing the necessity of transparent fiscal procedures for effective government. Fiscal transparency reduces the effect of the political budget cycle on total spending.

Meanwhile, [40] discovered that in democratic countries, fiscal information disclosure is greater, whereas in non-democratic countries, fiscal transparency appears to have little impact. [30] evaluated transparency levels in political budgets across established and developing regions. They contended that robust fiscal transparency in industrialized countries is crucial for reducing public debt, improving government effectiveness, and raising government spending efficiency ahead of during regional elections. Fiscal transparency has no effect on government effectiveness or expenditure efficiency in emerging countries prior to during regional elections. This occurs because emerging countries continue to work on a large number of projects. We build on the previous case study by looking into the institutional conditions that allow for election cycles in fiscal policy instruments. Is it true that the level of fiscal transparency policy determines how local governments manipulate fiscal policy to win during regional elections? Is government spending tactical, in the sense that the incumbent spends to improve their chances of reelection? Several theoretical models developed in the literature during the last 20 years can offer a positive response to this question. This paper examines if and how fiscal transparency affects the electoral cycle in budgetary policy. This essay looks at whether and how institutional transparency in fiscal policy affects government spending efficiency during the Indonesian election cycle. In Indonesia, little research has been conducted on the level of fiscal transparency in relation to fiscal manipulation

before during regional elections. This analysis expands on [28] findings by examining increases in both social spending and all components of capital investment.

2 LITERATURE REVIEW

Both a theoretical framework and empirical evidence that local economic conditions have an impact on the success of incumbent elections have been provided by political cycle research. [31] were the first to investigate the political cycle budget hypothesis, which examined how governments responded to increasing public spending during election years. [34] extended on previous research on the Political Budget Cycle, stating that budget manipulation by incumbents influenced the economy during election years. This study discovered that the government budget was abused for re-election purposes, resulting in asymmetric information about the incumbent's competency. Budget manipulation altered voters' perceptions of the incumbent's competence, resulting in an increase in votes during the election. In the absence of knowledge asymmetry, the political budget cycle becomes ineffective. All possible candidates, including Incumbents, compete in elections and employ political strategies. Incumbents have executive power over regional finances, therefore budget manipulation has occurred with the primary purpose of politicians: to ensure the political elections at hand. Such manipulation typically results in the establishment of political budget cycles around election years. During election years, expenditure on grants, social assistance, education, health care, subsidies, public pay hikes, and public infrastructure tends to increase dramatically.

Prior to an election, raising government spending on economic issues encourages voting and reduces the likelihood of losing the following election [19]. Because voters favor incumbent Incumbents who directly support them, particularly those with low incomes or who reside in high poverty areas, this short-term opportunistic effect has a significant impact on incumbent Incumbents [16]. In 2018, [20] interviewed 2000 German residents to assess the effectiveness of political budget signaling channels at the municipal level. They stated that only a tiny fraction of voters believed they were educated about political budget signals and made an informed decision about whether to elect the present Incumbent. They argue that voters are more likely to respond to signals from sitting Incumbents who live in local communities and are not being used for political purposes.

As a result, we construct the following hypothesis:

H1: Incumbents have positive effect on increasing social spending.

H1a: Incumbent have positive effect on increasing capital expenditure on buildings and structures.

H1b: Incumbent have positive effect on increasing capital expenditure on irrigation and roads.

H1c: Incumbent have positive effect on increasing capital expenditure on equipment and machinery.

H1d: Incumbent have positive effect on increasing capital expenditure on land.

H1e: Incumbent have positive effect on increasing capital expenditure on other fixed assets.

Elections allow citizens to fill state executive and legislative positions in a democratic manner over a certain period of time. When democracy is defined as authority that comes from the people, "by the people," and "for the people," democratic elections become an absolute necessity in a country's government. According to empirical democratic theory, citizens' active involvement is critical to the quality of democracy [2]. However, describing and understanding their relationship is highly challenging. The authors of *Making Democracy Work* [8] believe that the degree of civic involvement, responsive conditions, and the efficacy of elected politicians should meet people's needs. However, previous research has produced opposing viewpoints on incumbents' opportunistic behavior.

[10] discovered no evidence of increased government spending ahead of the during regional elections. They revealed that the increase in spending occurred prior to the election, and the Incumbent sent a positive message to the public. Similarly, [25] discovered no evidence of an increase in government spending before the during regional elections. One explanation is that incumbents manipulate fiscal policy by altering specific components of government spending rather than overall spending. There was no evidence of growing government spending or past budget deficits. In order to maintain control of the fiscal balance, incumbent Incumbents can use fiscal opportunism before elections to change the components of government spending.

[38] identify a political budget cycle at the municipal level in Portugal from 1979 to 2001. During election years, expansionary policies take the form of increased budget deficits and total spending. They also identified a drop in tax revenue while rising capital spending and investment, which is especially noticeable during an election year. [13] also analyzed Greece's political budget cycle at the local level between 1985 and 2004. This is represented in a rise in the budget deficit, total spending, and income from central government loans and transfers. Another sector that is growing is investment expenditure, as seen by the rapid advancement of projects over time. [6] investigated the political budget cycle in US towns, specifically the growth in taxes, spending, and personnel numbers between 1970 and 2004. This analysis found that there was no political budget cycle that resulted in an increase in total expenditure or tax revenue in election years compared to other years. However, researchers showed that total public employment rose by 0.7% during election years. Police agencies grow at a 0.6% faster rate during election years. Educators and sanitation workers, who may also be highly visible public employees, experience statistically significant increases in their numbers during election seasons.

Thus, we formulate the following hypothesis:

H2: Election year has a positive effect on increasing social spending.

H2a: Election year has a positive effect on increasing capital expenditure building and construction capital expenditure.

H2b: Election year has a positive effect on increasing capital expenditure on irrigation and roads.

H2c: Election year has a positive effect on increasing capital expenditure on equipment and machinery.

H2d: Election year has a positive effect on increasing land capital expenditure.

H2e: Election year has a positive effect on increasing capital expenditure on other fixed assets.

According to [12] and [23], transparency is a significant issue in guaranteeing fiscal transparency and accountability. Several experts from several countries have explored the link between transparency and increased government spending. [15] propose a model of how budget restrictions affect government debt and deficits, proposing that increasing budget transparency will improve the identification of creative accounting, resulting in less ineffective and efficient spending. Similarly, [39] research demonstrates that fiscal transparency can reduce a country's debt increase and primary government expenditure. As previously noted, [28] and [38] conducted the first research on the relationship between fiscal transparency and political budget. In their [40] analysis of 19 OCDE countries, discovered that political budgeting occurred in countries with low transparency.

Meanwhile, [28] observed that the political budget cycle is more common in developing countries when information transparency is limited. Similarly, [10] found the similar pattern in a survey of 68 nations. [42] discovered that regions with lower levels of financial transparency include the political budget cycle in overall government spending, while those with high transparency do not. However, this opportunistic cycle can be observed in both low and high transparency cities, as capital expenditure rises and tax rates fall. [22] conducted the same research on 99 impoverished countries and 34 Organization for Economic Cooperation and Development countries. Between 1970 and 2014, the authors identified smaller cycles in countries with higher transparency, particularly G8 countries. [24] This study looks at the impact of fiscal transparency on the political budget cycle (PBC) in the United States, utilizing data from state governments from 1991 to 2018. The results indicate that fiscal transparency reduces the impact of the political budget cycle on total spending. However, their findings show that the composition of spending changes from poverty to health and police spending during election years, showing that incumbents prefer visible spending.

Thus, we formulate the following hypothesis:

H3: Fiscal transparency has a negative effect on increasing social spending.

H3a: Fiscal transparency has a negative effect on increasing building and construction capital expenditure.

H3b: Fiscal transparency has a negative effect on increasing irrigation and road capital expenditure.

H3c: Fiscal transparency has a negative effect on increasing capital expenditure on equipment and machinery.

H3d: Fiscal transparency has a negative effect on increasing land capital expenditure.

H3e: Fiscal transparency has a negative effect on increasing capital expenditure on other fixed assets.

3 METHOD, DATA, AND ANALYSIS

This is a descriptive quantitative study of regional government websites in Indonesia. The empirical model for the analysis is as follows:

$$BV_{it} = \alpha + \beta_1 Inc + \beta_2 \text{regional elections} + \beta_3 (Inc \times \text{Low Transparency}_{i,t}) - \beta_4 (Inc \times \text{High Transparency}_{i,t}) + \varepsilon \dots$$

This analysis comprised 398 regional governments in Indonesia that held simultaneous local elections in 2020, 2018, and 2017. Purposive sampling is the method utilized to obtain samples. The dependent variable is described as a rise in social and capital expenditures. The measurements used are explained in table 1. The independent variables on incumbent and election year are measured using dummy variables. The transparency level index in this study is based on the implementation of Inpres No. 7 Tahun 2015 on actions to prevent and eradicate corruption reiterated the transparency of regional financial management by mandating Regional Governments to disclose 12 indicators on the TPAD content website as well as the official regional government website. This study's analysis technique will be panel data analysis. Panel data is a combination of cross-sectional and time series data. Because we want to investigate cross-regional changes in political budget cycles, we divide our sample into subsamples based on developed and developing regions as a control variable.

| Variables | Indicators |
|--------------------------|---|
| Social Expenditure (Y1) | $Y = \frac{Y_1 - Y_{-1}}{Y_{-1}}$ |
| Capital Expenditure (Y2) | <p><u>Informations:</u> Y: Social expenditure, and capital expenditure Y₁: Total expenditure on election year Y₋₁: Total expenditure on one year before election</p> |
| Incumbent | Dummy variable 1 = Incumbent 0 = Non-Incumbent |
| Election Year | Dummy variable 1 = election year 0 = One year before election year |
| Fiscal Transparency | The implementation of Inpres No. 7 Tahun 2015. |

| | |
|--|---|
| | Each criterion in this study has a point that relates to Herzog's (2017) research: |
| | A. 2 points: it is considered high transparency if the 12 (twelve) indicators in Inpres No. 7 Tahun 2015 are met on municipal website. |
| | B. 1.5 points: it is considered high transparency if only 6 (six) of the 12 (twelve) indicators in Inpres No. 7 Tahun 2015 are met. |
| | C. 1 point: For the regionals that only have municipal website with no information, it indicates low transparency. |
| | D. 0 points: If the regionals do not have municipal website. |
| Developing Regional (control variables) | with per capita GRDP greater than Rp 30.000.000.000, are classified as developed countries. Variable DEV, which takes the value of 1 for developed countries and 0 otherwise. |

Table 1 Operasional Variables

4 RESULT AND DISCUSSION

Table 2 Regression result between low fiscal transparency and increasing government spending during an election year.

| | Expecting sign | CAPITAL EXPENDITURE | | | | | |
|----------------------|----------------|-------------------------------|--------------------------------|--------------------------------------|----------------------------------|--------------------------------------|------------------|
| | | Social Assistance Expenditure | other fixed assets Expenditure | buildings and structures Expenditure | irrigation and roads Expenditure | equipment and machinery -Expenditure | Land Expenditure |
| C | | 1.334175 | 1.0004909 | 0.119454 | 0.007958 | 0.208267 | 6.985137 |
| INC | + | -0.978061 | -0.237158 | -0.011039 | 0.036012 | 0.087808 | 16.81367 |
| | | 0.7172 | 0.6780 | 0.9080 | 0.7563 | 0.5440 | 0.2042 |
| ELECT_YEAR | + | 2.636273 | -0.734611 | -0.215506 | 0.075369 | 0.171469 | 3.076458 |
| | | 0.3320 | 0.2017 | 0.0257 | 0.5185 | 0.2392 | 0.8170 |
| INC× ELECT×LOW_TR | + | 2.956880** | 0.983136 | 0.061022*** | 0.189483 | 0.003026 | -23.90628 |
| | | 0.04639 | 0.2500 | 0.0691 | 0.2751 | 0.9888 | 0.2270 |
| DEV | + | 0.20970 | -0.745466 | 0.217275 | 0.233227 | 0.137646 | -16.17077 |
| | | 0.9653 | 0.4647 | 0.2033 | 0.2607 | 0.5940 | 0.4932 |
| N | | 211 | 211 | 211 | 211 | 211 | 211 |

The table was subjected to random effects regression based on the Hausman test findings. INC (Incumbent) is a regional leader who has served two terms. ELECT_YEAR refers to the year preceding and after the during regional election. INC*LOW_TR is a contemporary regional leader working in an area with limited budgetary transparency. INC*HIGH_TR is a current regional leader who operates in an area with high fiscal transparency. The p values are in parenthesis: *p < 1%, **p < 5%, and ***p < 10%.

The Hausman test results show that random effect regression will be used to investigate the independent and dependent variables in this study. The research findings in Table 1 suggest that the incumbent variable (INC) test has little effect on increasing government spending, including social assistance and capital spending. Similarly, the election year (ELECT_YEAR) has no impact on increasing government spending, including social and capital investment. In the low-level transparency test (INC×ELECT×LOW_TR), the incumbent boosted government spending, namely social expenditure, and building expenditure, as indicated in Table 2. The coefficient value was 2.956880, and the p-value was 0.04639 (< 5%), and for building expenditure has the coefficient value was 0.061022, and p-value 0.0691 (< 10%)

We found an increase in social expenditure, and building expenditure from APBD with incumbents who lead in low transparency regionals in election year. This study supports prior research, which found that political budgeting is more common in nations with lower levels of transparency especially in developing regional [28;42;22; 24]. This occurs because the social support has a positive impact on each country's during regional elections. This type of aid appears to be effective since it is easier for the community to monitor and experience personally, and it arrives faster than programmed items. By raising social assistance budget expenditure, the incumbent can send a signal to voters about their competency, as voters expect politicians in power to be able to offer public goods while in work. Similar to capital expenditure, each sort of capital can have a varied impact on social and economic growth. According to political economic theory, people may choose different forms of capital, whereas politicians may manipulate capital structures to maximize their prospects of reelection, include infrastructure of schools, hospitals, armaments, real estate, and automobiles [12].

Table 3 Regression result between high fiscal transparency and increasing government spending during an election year

| | Expecting sign | Social Assistance Expenditure | other fixed assets Expenditure | CAPITAL EXPENDITURE | | | |
|------------|----------------|-------------------------------|--------------------------------|--------------------------|----------------------------------|-------------------------------------|------------------|
| | | | | buildings and structures | irrigation and roads Expenditure | equipment and machinery Expenditure | Land Expenditure |
| C | | 1.513259 | 5.328478 | 0.082719 | 0.105107 | -0.544923 | 3.005368 |
| INC | + | -3.285959 | 4.574381 | 1.048645 | -0.057576 | 8.982081 | -0.394360 |
| | | 0.0441 | 0.0631 | 0.1265 | 0.4271 | 0.1077 | 0.8296 |
| ELECT_YEAR | + | -2.133606 | 4.504862 | 0.158078 | 0.043003 | 0.292440 | 0.363525 |
| | | 0.4465 | 0.1000 | 0.8359 | 0.5946 | 0.9624 | 0.8585 |

| | | | | | | | |
|----------------------|---|-----------|-------------------|-----------|-------------------|----------|-----------|
| INC× ELECT × HIGH_TR | - | -0.758707 | 4.667137** | -0.752717 | 2.922597** | 5.656112 | -0.774955 |
| | | 0.6827 | 0.0482** | 0.2528 | 0.0065** | 0.2907 | 0.6647 |
| DEV | | 2.567798 | 2.633539 | -0.251583 | 0.104405 | 5.369480 | -2.249954 |
| | | 0.8102 | 0.7052 | 0.8969 | 0.6117 | 0.7339 | 0.6647 |
| N | | 502 | 502 | 502 | 502 | 502 | 502 |

The research findings in Table 3 reveal that the incumbent variable (INC) test has negative effect on increasing government expenditure. The results of the political budget test in the election year (ELECT_YEAR) show that the election year has a negative influence on increasing government expenditure,

The regional test results with a high level of transparency (INC× ELECT × HIGH_TR) show that the incumbent increased government spending on capital expenditure, particularly other fixed asset, and roads. Table 2 indicates that other fixed asset expenditure has a coefficient value of 4.667137, and p-value of 0.0482 (<5%), while roads expenditure has coefficient value of 2.922597, a p-value of 0.0065 (<5%). This goes against the hypothesis stated in this study. We noticed an increase in capital expenditures from APBD, particularly other fixed asset, and roads by incumbents who lead in high transparency regionals on election year.

This outcome contradicts both the study's hypothesis and the findings of [28],[22],[38] who discovered that political budget cycles do not exist in regionals with high fiscal transparency, but according to [28] said that "the cycle is where you cannot see it".

Empirical research suggests that politicians in both high and low transparency region exhibit different behavior patterns. Most national expenditure analyses show a decrease in capital expenditures and, as a result, Increase in the proportion of current expenditures in an election year. Meanwhile, other studies show the opposite relationship at the municipal level: as elections near, the nominal value of investment or the share of capital expenditure in overall expenditures rises.

This is due to the high 'visibility' of infrastructure investment among voters and the comparatively large number of beneficiaries of new investment. One important consideration may be the investment's 'visibility' to potential voters. A voter in the regional with high levels of transparency area may be more likely to notice and benefit from the capital because it is closer to home. In contrast, a voter voting in a national election may be uninformed of capital made tens of miles away.

According to [24] discovered the impact of high fiscal transparency on the political budget cycle (PBC) in the United States, indicate that the composition of spending changes from poverty to health and police spending during election years, showing that incumbents with high transparency region prefer visible spending. Vicente & Vicente, [5] discovered opportunistic cycle can be observed in both low and high transparency cities, as capital expenditure rises and tax rates fall. [38] observed that the political budget cycle is more common in developing countries when information transparency is limited.

According to [29], capital expenditures have 'higher visibility spillovers'. The 'visibility' of investments is highly crucial in this regard. Some types of investments (such

as a sports stadium) may have a weaker influence on long-term economic growth than others (such as the construction of a water pipeline), while being more visible to voters. Politicians choose between 'visible' investments that contribute less to economic growth and less visible investments that contribute more. There may be a trade-off between productivity and visibility for certain investment types.

5 Conclusion

This study evaluates the extent of fiscal transparency by taking into account regional variances in the political budgets carried out by incumbent. Empirical data reveal that regions with low levels of transparency have incumbent regional chiefs who raise social assistance spending, and building expenditure. We found an increase in social expenditure from APBD with incumbents who lead in low transparency regionals. We noticed an increase in capital expenditures from APBD in regional with high levels of transparency, particularly fixed asset expenditure, and road expenditure. In other words, notwithstanding their region have high level of transparency incumbent increase capital spending ahead of the election. Empirical research suggests that politicians in both high and low transparency region exhibit different behavior patterns.

We also anticipate that fiscal transparency established by a region will make it easier for people to connect outcomes to the activities of specific politicians. Transparency also allows onlookers to distinguish between genuine efforts and the opportunistic behavior of current Incumbents. budgetary transparency enables citizens, interest groups, and competing political parties to see or deduce the causes and repercussions of government budgetary decisions, either directly or through the media. When an area has inadequate transparency, a political budget cycle emerges, making it easier for Incumbents to manipulate budgetary policy due to a lack of public oversight.

To summarize, promoting fiscal transparency can increase budget efficiency by allowing for scrutiny and community participation. However, Incumbents and politicians who are eager for power and opportunistic would always strive to anticipate defeat by engaging in "budget politicization," or changing the composition of future public spending as their preference, in order to win voters' hearts. This political budget cycle tends to repeat itself at every level of government in the run-up to during regional elections, particularly in developing countries, at all levels of transparency. As a result, economic democracy is proposed, which requires developing the regional economy in a harmonious and balanced manner across regions within a single national economic unit while maximizing regional ability and involvement. The importance of managing regional finances economically, efficiently, and effectively, or delivering value for money, as well as participation, transparency, accountability, and justice in developing regions, for community welfare and poverty reduction.

This study has limitations, such as a small number of observations and the fact that not all districts and cities in Indonesia are represented. The data sample used was the simultaneous Incumbent elections in 2020, 2018, and 2017, so future researchers should consider including other districts and cities in Indonesia that will hold Incumbent elections in 2024. This study excludes other political considerations that could have an impact on the results

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