AKSY
Jurnal Ilmu Akuntansi dan Bisnis Syariah
Volume 8, Number 1, January 2026, Pages 145-161

DOES GOVERNMENT INTEGRITY ALWAYS IMPROVE FINANCIAL SUSTAINABILITY? THE ROLE OF FINANCIAL FREEDOM IN APEC ECONOMIES

Rizki Putri Utami
Airlangga University, Surabaya, Indonesia
rizki.putri.utami-2024@feb.unair.ac.id

Zahroh Naimah
Airlangga University, Surabaya, Indonesia
zahroh-n@feb.unair.ac.id

Abstract

This study examines whether government integrity consistently improves financial sustainability and explores the role of financial freedom in APEC economies. Financial sustainability is conceptualized as an accounting-based fiscal outcome reflecting governments' capacity to manage long-term fiscal obligations transparently. Using panel data from 13 APEC member countries during 2010–2024, this study employs a fixed effects panel regression to control for unobserved country-specific heterogeneity. Government integrity and financial freedom are measured using indices from the Heritage Foundation, while financial sustainability is constructed as a composite index derived from key fiscal indicators. The results show that government integrity has a statistically significant but negative association with financial sustainability, suggesting that higher integrity enhances transparency and comprehensive recognition of fiscal obligations, which may initially worsen measured fiscal sustainability due to improved disclosure and accounting recognition effects rather than weaker fiscal discipline. Financial freedom does not exhibit a significant effect, indicating that financial market openness alone is insufficient to ensure sustainable public finances. GDP per capita positively influences financial sustainability.

Keywords: *APEC Economies, Financial Freedom, Financial Sustainability, Fiscal Sustainability, Fiscal Transparency, Government Integrity, Public Sector Accounting*

1. Introduction

Financial sustainability represents a fundamental issue in public sector accounting, as it reflects the government's ability to maintain a sustainable financial position over time as reported in government financial statements. From a government accounting

*Corresponding author : rizki.putri.utami-2024@feb.unair.ac.id
Received: Dec 28, 2025; Revised: Jan 12, 2026, Accepted: 14 Jan, 2026; Published: Jan 17, 2026

perspective, financial sustainability extends beyond the balance between revenues and expenditures to encompass the government's capacity to manage fiscal deficits, public debt, and interest obligations in an accountable and sustainable manner. This concept is theoretically grounded in the intertemporal budget constraint framework, which posits that fiscal policy is sustainable when governments can meet their obligations over time without compromising future fiscal capacity (Bohn, 1998).

Recent global crises, including the 2008 financial crisis and the COVID-19 pandemic, have demonstrated that weaknesses in financial sustainability translate directly into deteriorating fiscal positions, rising debt levels, and increased fiscal risks reflected in public financial reports (Kusumasari et al., 2023; Ullah et al., 2024). Consequently, international institutions such as the International Monetary Fund (IMF) and the OECD emphasize fiscal sustainability as a prerequisite for macroeconomic stability and credible public financial reporting, commonly assessed through indicators such as fiscal balances, debt-to-GDP ratios, and debt servicing capacity (IMF, 2020–2022). These developments highlight that financial sustainability is not merely a technical fiscal issue but is closely linked to institutional quality and public financial governance.

The Asia Pacific Economic Cooperation (APEC) region provides a particularly relevant context for examining financial sustainability. As a region accounting for more than 60 percent of global GDP, APEC encompasses economies with substantial differences in fiscal capacity, institutional quality, and financial system development (APEC, 2023). Such heterogeneity suggests that variations in financial sustainability across APEC economies cannot be explained solely by economic size but are also shaped by differences in governance structures and public financial management practices.

Government integrity has emerged as a key institutional factor influencing fiscal outcomes in the public sector accounting literature. Government integrity, encompassing transparency, accountability, and corruption control, directly affects the quality of fiscal recognition, measurement, and disclosure in government financial reports. According to institutional theory, higher levels of integrity are expected to constrain opportunistic behavior, strengthen budget discipline, and enhance fiscal accountability (World Bank, 1992; Chen & Neshkova, 2020). However, empirical evidence remains mixed. While some studies document positive effects of government integrity on fiscal and economic performance, others report insignificant or inconsistent results when integrity is measured using fragmented governance indicators (Simo-Kengne & Bitterhout, 2023; Nazli, 2025).

In addition to institutional governance, financial freedom represents a market-based dimension that may influence financial sustainability. Financial freedom reflects the extent to which financial systems operate efficiently with limited government intervention, enabling effective fiscal financing and debt management (Heritage Foundation, 2024). Prior research suggests that higher financial freedom may improve fiscal efficiency and resilience to economic shocks. Nevertheless, its impact on financial sustainability is neither automatic nor unconditional and depends critically on the surrounding institutional and regulatory environment (Economou, 2019; Frimpong et al., 2023).

Despite extensive research on governance and economic freedom, two gaps remain evident. First, existing studies often examine government integrity and financial freedom in isolation, relying on partial institutional proxies rather than comprehensive measures of integrity relevant to public financial accountability. Second, empirical evidence on the determinants of financial sustainability in the APEC region remains limited, particularly from a public sector accounting perspective. Given the pronounced institutional and financial heterogeneity across APEC economies, further investigation is warranted.

Despite the growing body of empirical research on governance and fiscal outcomes, several important gaps remain. First, existing studies report inconsistent findings regarding the impact of government integrity on financial sustainability, with evidence ranging from positive and insignificant to mixed effects across countries and regions. These inconsistencies suggest that prior research has not sufficiently explained when and under what institutional and accounting conditions government integrity enhances or fails to enhance financial sustainability. Second, many studies rely on fragmented governance indicators that do not fully capture the multidimensional nature of integrity relevant to public financial accountability, particularly transparency and fiscal recognition practices. Third, empirical evidence focusing on the APEC region remains limited, despite its substantial institutional and fiscal heterogeneity. As a result, the mechanisms through which integrity and financial system characteristics jointly shape financial sustainability in APEC economies remain underexplored. This study addresses these gaps by adopting a public sector accounting perspective and examining how government integrity and financial freedom interact with accounting-based measures of financial sustainability across heterogeneous APEC economies.

In this context, the question implied by the title, whether government integrity always improves financial sustainability, remains empirically and conceptually unresolved. Prior studies provide inconsistent evidence on the integrity sustainability link and often do not clarify the conditions under which integrity reforms translate into stronger fiscal outcomes versus merely improving the transparency of reported fiscal positions. Moreover, financial freedom may shape this relationship by influencing how governments finance deficits and manage debt, yet its role is rarely examined alongside integrity within a public sector accounting perspective. Given APEC's pronounced heterogeneity in governance quality and financial market development, examining integrity and financial freedom jointly provides a more critical and context-sensitive explanation of why improvements in integrity may or may not be reflected in accounting-based measures of financial sustainability.

Addressing these gaps, this study examines the effects of government integrity and financial freedom on financial sustainability in APEC economies. By adopting a public sector accounting perspective and institutional theory framework, this study provides empirical evidence on how institutional integrity and financial system characteristics jointly shape sustainable public finances. The findings are expected to contribute to the literature on government accounting and public financial management and to offer policy-relevant insights for strengthening fiscal governance and financial reporting quality.

This study offers three contributions. First, the study contributes theoretically by extending institutional theory to interpret financial sustainability as an accounting-based outcome that is shaped by governance quality and fiscal transparency practices, rather than purely macroeconomic conditions. Second, the study contributes empirically by providing cross-country panel evidence from 13 APEC economies (2010–2024) on the joint roles of government integrity and financial freedom in explaining financial sustainability using a composite fiscal index. Third, the study contributes to policy by highlighting that integrity reforms may initially worsen measured fiscal sustainability due to improved recognition and disclosure, and by suggesting that strong fiscal management and oversight mechanisms should complement transparency-oriented reforms.

2. Literature Review

2.1 Institutional Theory and Financial Sustainability

Institutional theory emphasizes that economic outcomes and public policy effectiveness are fundamentally shaped by the quality of formal and informal institutions governing public sector behavior (North, 1990). In the context of public sector accounting, institutional quality determines how fiscal decisions are translated into budget execution, accounting recognition, and financial reporting, which ultimately affects the sustainability of public finances. Strong institutions provide credible rules, effective enforcement mechanisms, and accountability structures that constrain opportunistic behavior and support prudent fiscal management. Empirical evidence consistently shows that countries with higher institutional quality exhibit stronger fiscal discipline, lower fiscal risks, and more sustainable public finances. Studies document that effective governance, regulatory quality, and corruption control improve fiscal credibility and reduce debt vulnerabilities, particularly in economies exposed to external shocks (Khan et al., 2023; Tekdemir & Yeşil, 2025; Onyele et al., 2024). Conversely, weak institutions undermine fiscal capacity by distorting public spending, weakening budget controls, and reducing the reliability of government financial reporting, thereby increasing the risk of fiscal unsustainability (Muslim et al., 2024; Ullah et al., 2024).

Within the Asia-Pacific Economic Cooperation (APEC) region, institutional theory provides a relevant framework for explaining cross-country differences in financial sustainability. The region is characterized by substantial heterogeneity in governance quality, regulatory effectiveness, and public sector accountability. Evidence suggests that economies with resilient and adaptive institutional frameworks were better able to maintain fiscal discipline and public confidence during periods of crisis, such as the COVID-19 pandemic (Idrus, 2024). Accordingly, institutional theory underpins this study by linking governance structures to sustainable public financial outcomes.

2.2 Government Integrity and Financial Sustainability

Government integrity constitutes a core dimension of institutional quality and reflects the extent to which public authorities conduct fiscal management in a transparent, accountable, and ethical manner. According to the World Bank and OECD, government integrity encompasses transparency, accountability, corruption control, and the effective enforcement of public sector ethics, all of which are essential for credible public financial management (OECD, 2017; World Bank, 2023). From a public sector accounting perspective, higher integrity improves the quality of fiscal recognition, measurement, and disclosure in government financial statements.

A substantial body of empirical literature finds that government integrity is positively associated with fiscal discipline and financial sustainability. Dabla-Norris et al. (2010) show that sound governance frameworks strengthen budget oversight and reduce deficit risks through enhanced transparency and accountability mechanisms. Similarly, Zeqiraj et al. (2022) and Khan et al. (2023) document that higher integrity levels are linked to reduced budgetary inefficiencies and improved fiscal transparency. In APEC economies, institutional reforms emphasizing integrity have been associated with more stable fiscal positions and lower vulnerability to fiscal shocks.

However, empirical findings are not uniform across regions. Studies relying on partial governance indicators such as corruption perception alone often report weak or insignificant relationships between integrity and fiscal sustainability (Simo-Kengne & Bitterhout, 2023). These inconsistencies suggest that fragmented measures may fail to capture the multidimensional nature of government integrity relevant to public financial accountability. This highlights the importance of adopting a comprehensive integrity construct that integrates transparency, accountability, and corruption control when analyzing financial sustainability. Based on institutional theory and prior empirical evidence, higher government integrity is expected to strengthen fiscal discipline by constraining opportunistic behavior, improving transparency, and enhancing accountability in public financial management. These mechanisms are theoretically associated with more sustainable fiscal outcomes.

H1: Government integrity has a positive effect on financial sustainability

2.3 Financial Freedom and Financial Sustainability

Financial freedom reflects the extent to which a country's financial system operates efficiently with limited government intervention, effective regulation, and secure property rights (Heritage Foundation, 2024). In institutional economics, financial freedom is expected to enhance market efficiency, facilitate capital allocation, and strengthen fiscal financing capacity. From a fiscal perspective, an open and efficient financial system may lower borrowing costs, diversify funding sources, and improve the government's ability to manage public debt sustainably. Empirical studies generally support a positive relationship between financial freedom and fiscal performance. Research on OECD and emerging economies shows that higher levels of financial freedom are associated with improved fiscal balances and reduced debt volatility (Senturk et al., 2025; Simo-Kengne & Bitterhout, 2023). IMF (2022) evidence further indicates that financial openness can mitigate debt sustainability risks by facilitating access to domestic and international capital markets.

Nevertheless, the literature also emphasizes that the effects of financial freedom are conditional on institutional strength. Excessive liberalization in the absence of effective governance and regulatory oversight may increase financial volatility and undermine fiscal sustainability (Economou, 2019). As such, financial freedom alone does not guarantee sustainable public finances, particularly in countries with weak institutional capacity. This conditional relationship underscores the need to examine financial freedom within heterogeneous institutional contexts such as the APEC region. Accordingly, financial freedom is expected to promote efficient financial intermediation, lower fiscal financing costs, and enhance fiscal resilience, thereby supporting sustainable public finances under appropriate institutional conditions.

H2: Financial freedom has a positive effect on financial sustainability

3. Research Methods

This study adopts a quantitative cross-country research design using panel data analysis to examine the effects of government integrity and financial freedom on financial sustainability across APEC economies. A panel data approach is employed to capture both cross-sectional differences among countries and time-series dynamics in fiscal and institutional conditions, allowing for more robust empirical inference. This study employs a quantitative research design to examine the effects of government integrity and financial freedom on financial sustainability across APEC economies. A quantitative approach is appropriate because the study aims to test hypotheses using measurable secondary data and statistical techniques empirically. The analysis adopts a panel data framework, which allows the study to account for both cross-country differences and time dynamics in fiscal and institutional conditions.

The population of this study consists of all 21 member economies of the Asia-Pacific Economic Cooperation (APEC). A purposive sampling technique is applied to select countries that provide complete and consistent data for all variables included in the analysis over the period 2010–2024. Based on these criteria, 13 APEC economies are selected as the final sample, yielding 195 country-year observations. Countries with incomplete fiscal or institutional data are excluded to ensure data reliability and comparability across countries and over time.

Tabel 1: List of Countries Meeting the Data Availability Criteria

No	Negara	Kode
1	Australia	AUS
2	Canada	CAN
3	Republic of Korea	KOR
4	Mexico	MEX
5	Malaysia	MYS
6	New Zeland	NZL
7	Peru	PER
8	Philippines	PHL
9	Papua New Guinea	PNG
10	Russian Federation	RUS
11	Singapore	SGP
12	Thailand	THA
13	United States of America	USA

Source: Data processed by the author

This study uses secondary data obtained from internationally recognized institutions. Fiscal data and macroeconomic control variables are collected from the World Bank database, while government integrity and financial freedom indicators are obtained from the Heritage Foundation's Index of Economic Freedom. All data are collected in numerical form and standardized to ensure consistency in cross-country comparisons.

This study employs government integrity and financial freedom indices published by the Heritage Foundation because these indices provide a comprehensive and consistent cross-country measure of institutional quality and financial system characteristics over time. Unlike fragmented governance indicators that focus on a single dimension, such as corruption perception, the Heritage Foundation's Government Integrity Index integrates aspects of transparency, accountability, and corruption control that are closely aligned with public sector accounting and fiscal governance practices. In addition, the Heritage

Foundation indices offer standardized coverage across countries and years, which is essential for panel data analysis and cross-country comparability in the APEC context.

Financial sustainability is treated as the dependent variable and conceptualized as the government's ability to maintain a stable fiscal position over the long term. It is measured using a composite index constructed from four fiscal indicators: fiscal deficit, public debt, economic growth, and interest payment-to-revenue ratio. Indicators with a negative relationship to financial sustainability are transformed so that higher values consistently reflect better fiscal conditions. The aligned indicators are then aggregated into a single composite index, following established practices in cross-country fiscal sustainability research.

Government integrity and financial freedom are the main independent variables. Government integrity is measured using the Government Integrity Index published by the Heritage Foundation, which reflects transparency, accountability, and corruption control within public institutions. Financial freedom is measured using the Financial Freedom Index from the same source, capturing the efficiency and openness of the financial system. Both indices are scaled from 0 to 100, where higher values indicate stronger institutional integrity and greater financial system freedom.

To control for macroeconomic conditions that may affect fiscal outcomes, inflation, exchange rate changes, and real GDP per capita are included as control variables. Inflation is measured as the annual percentage change in the Consumer Price Index, exchange rate change is measured as the annual percentage change in the local currency per USD, and GDP per capita is measured in real terms.

The data are analyzed using panel data regression techniques implemented in STATA software. Descriptive statistics are first generated to summarize the characteristics of the variables. Panel regression models, including pooled ordinary least squares, fixed effects, and random effects, are estimated to examine the relationship between government integrity, financial freedom, and financial sustainability. Model selection is conducted using standard specification tests.

In accordance with the journal's requirements for quantitative research, classical assumption tests are performed before estimation. Normality is assessed to ensure the distribution of residuals is appropriate for regression analysis, while multicollinearity is examined using correlation matrices to detect high correlations among independent variables. These diagnostic procedures ensure the robustness and reliability of the estimated regression results.

4. Results and Discussion

4.1 Result

This section presents the empirical findings from the panel data regression analysis examining the effects of government integrity and financial freedom on financial sustainability across APEC economies during the period 2010–2024. The analysis focuses on results that directly address the research questions and hypotheses, with findings summarized in concise tables and accompanied by explanatory narrative.

Table 2 Descriptive Statistics

Variabel	Observasi	Mean	Min	Max	Std. Dev.
Financial Sustainability/FS	195	0,2351	0,0566	0,3822	0,0484
Government Integrity/GI	195	56,4641	20	97,5	25,3871
Financial Freedom/FF	195	63,3846	30	90	17,8144
Inflasi (INF)	188	3,2755	-1,6107	18,6777	2,5141
Exchange Rate/EXC	194	300,5566	0,9658	20.509,75	1.996,11
GDP	195	12,0378	0	17,9439	2,6467

Source: Data processed by the author

Table 1 presents the descriptive statistics of all variables included in the analysis. The results reveal substantial cross-country variation in institutional quality, financial system characteristics, and fiscal conditions among APEC economies. Government integrity and financial freedom display wide dispersion, reflecting heterogeneous governance frameworks and financial market structures across countries. Financial sustainability also varies considerably, indicating differences in fiscal capacity, debt management practices, and economic resilience over time. These patterns justify the use of a panel data approach to capture both cross-sectional and temporal dynamics.

Table 2 Correlation Matrix

Variable	FS	GI	FF	INF	EXC	GDP
FS	1					
GI	-0.1231	1				
FF	-0.1478	0.8058	1			
INF	-0.1511	0.0412	0.0776	1		
EXC	-0.0895	0.0593	0.0067	0.427	1	
GDP	-0.0087	-0.0248	-0.0434	0.0995	0.2665	1

Source: Data processed by the author

Correlation analysis is conducted to examine the relationships among independent and control variables and to assess potential multicollinearity. As shown in Table 2, none of the pairwise correlations exceed conventional thresholds, indicating that multicollinearity is not a concern in the regression model. This suggests that government integrity and financial freedom capture distinct institutional dimensions and can be jointly included in the empirical specification.

Table 3 Fixed Effect Regression Results

Variabel Independen	Koefisien	Std. Error	t-statistik	P-value
GI	-0.0015	0.0006	-2.57	0,011**
FF	0.001	0.0009	1.11	0.269
INF	0.0004	0.0017	0.27	0.79
EXC	0	0	-0.96	0.337
GDP	0.0054	0.0026	2.05	0,042**
Konstanta (_cons)	0.1889	0.0768	2.46	0.015

Source: Data processed by the author

The main regression results are presented in Table 3 using the fixed effects model, which is selected as the most appropriate specification based on model selection tests. The results indicate that government integrity has a statistically significant and negative effect on financial sustainability. In contrast, financial freedom does not exhibit a statistically significant relationship with financial sustainability. Among the control variables, GDP per capita shows a positive and significant association with financial sustainability, while inflation and exchange rate changes do not consistently affect fiscal sustainability across countries.

Overall, the results suggest that institutional and economic capacity factors play differentiated roles in shaping financial sustainability in APEC economies. While economic capacity contributes positively to fiscal sustainability, improvements in governance quality and financial system openness do not uniformly translate into stronger fiscal sustainability outcomes.

4.2 Discussion

4.2.1 Government Integrity and Financial Sustainability

The negative and statistically significant relationship between government integrity and financial sustainability represents one of the most salient findings of this study. At first glance, this result appears counterintuitive, as institutional theory generally posits that higher institutional quality should enhance fiscal discipline and long-term financial stability. However, a deeper interpretation grounded in public sector accounting and institutional reform dynamics provides a coherent explanation. From a public sector accounting perspective, higher government integrity is closely associated with enhanced transparency, stronger accountability mechanisms, and stricter enforcement of fiscal reporting standards. Governments with higher integrity tend to adopt more conservative accounting practices, recognize fiscal liabilities more comprehensively, and disclose budgetary risks more transparently. As a consequence, fiscal indicators such as deficits, debt ratios, and interest burdens are more fully reflected in official statistics. This phenomenon, often referred to as the fiscal transparency or recognition effect, implies that improvements in governance quality may initially lead to a deterioration in measured fiscal sustainability, not because fiscal management weakens, but because reporting accuracy improves.

Institutional theory further suggests that governance reforms entail adjustment costs and transitional effects (North, 1990). Strengthening integrity through anti-corruption policies, enhanced audit functions, and tighter budgetary controls can constrain discretionary fiscal practices and expose underlying structural imbalances that were previously obscured. During the reform phase, these adjustments may temporarily worsen fiscal sustainability indicators as governments shift from accommodative or opaque practices toward stricter fiscal discipline and transparent reporting. Empirical evidence from cross-country studies supports this interpretation, showing that governance improvements may initially coincide with higher reported deficits or debt levels before generating long-term fiscal benefits (Boța-Avram et al., 2018; Fernández-Rodríguez et al., 2023).

Within the APEC context, this dynamic is particularly relevant due to pronounced institutional heterogeneity. Economies with high government integrity—often advanced economies—are more likely to comply with international fiscal reporting standards and to fully recognize contingent liabilities, especially in the aftermath of global shocks such as the COVID-19 pandemic. In contrast, economies with weaker institutional frameworks may report more favorable fiscal positions due to less stringent disclosure requirements. Consequently, the observed negative association reflects differences in accounting quality and institutional maturity, rather than a causal deterioration in fiscal discipline. Therefore, the findings suggest that government integrity reshapes how financial sustainability is measured and reported, reinforcing the argument that fiscal indicators must be interpreted within their institutional and accounting contexts. In this sense, lower measured sustainability in high-integrity countries may signal stronger accountability rather than fiscal fragility.

4.2.2 Financial Freedom and Financial Sustainability

The absence of a statistically significant relationship between financial freedom and financial sustainability indicates that financial system openness alone is insufficient to ensure sustainable public finances. Although financial freedom is often expected to improve capital allocation efficiency and reduce borrowing costs, the results suggest that its fiscal implications are highly conditional. From an institutional standpoint, financial freedom can yield divergent fiscal outcomes depending on governance quality and regulatory capacity. In countries with weak institutional frameworks, greater financial openness may increase exposure to volatile capital flows and external shocks without strengthening fiscal discipline. Conversely, in countries with well-developed financial systems, additional financial liberalization may offer limited marginal benefits for fiscal sustainability, as financial openness is already embedded within broader fiscal and monetary institutions.

From a public sector accounting perspective, financial freedom primarily affects the structure and cost of public financing, rather than the sustainability of fiscal balances themselves. Governments may gain improved access to domestic and international financial markets without addressing underlying imbalances between revenues and expenditures. As a result, financial freedom does not emerge as a direct determinant of financial sustainability in the empirical model. This finding is consistent with prior literature emphasizing the non-linear and context-dependent effects of financial liberalization on fiscal outcomes (Economou, 2019; Simo-Kengne & Bitterhout, 2023). In the APEC context, the insignificant effect of financial freedom may reflect substantial differences in regulatory quality, financial market maturity, and institutional capacity across member economies. While greater financial openness can improve access to financial markets, its fiscal benefits are likely to materialize only when supported by strong regulatory frameworks and effective public financial management. As a result, financial freedom alone does not automatically translate into improved financial sustainability.

4.2.3 The Role of Economic Capacity

The positive and statistically significant effect of GDP per capita underscores the central role of economic capacity in sustaining public finances. Higher income levels are typically associated with broader tax bases, stronger revenue mobilization, and greater fiscal space, enabling governments to manage debt obligations and absorb economic shocks more effectively. This finding aligns with fiscal sustainability theory, which emphasizes economic growth and income levels as fundamental determinants of governments' ability to maintain intertemporal budget balance (Bohn, 1998; Afonso & Jalles, 2015). From a public sector accounting perspective, stronger economic capacity enhances governments' ability to service liabilities, maintain credible fiscal reporting, and manage long-term obligations. Consequently, economic development emerges as a stabilizing force that supports financial sustainability, independent of short-term macroeconomic fluctuations.

The findings of this study contribute to the public sector accounting literature by demonstrating that institutional quality and financial system characteristics influence financial sustainability in nuanced and non-linear ways. The negative association between government integrity and financial sustainability highlights the importance of interpreting fiscal indicators in light of accounting transparency and institutional reform dynamics, rather than viewing them as purely economic outcomes. Meanwhile, the insignificant effect of financial freedom suggests that robust governance frameworks must complement market-oriented reforms to translate financial openness into sustainable fiscal outcomes. For policymakers, these results imply that improvements in governance and integrity should not be evaluated solely based on short-term fiscal indicators, as enhanced transparency may initially reveal fiscal vulnerabilities. For researchers, this study underscores the importance of integrating institutional theory with accounting-based measures of fiscal sustainability in cross-country analyses.

5. Conclusion

This study investigates the relationship between government integrity, financial freedom, and financial sustainability in APEC economies over the period 2010–2024 using a panel data approach. The empirical findings demonstrate that government integrity has a statistically significant but negative association with financial sustainability, indicating that higher levels of integrity are accompanied by lower measured fiscal sustainability in the short to medium term. The negative association between government integrity and financial sustainability should be interpreted as reflecting differences in fiscal transparency and accounting recognition practices rather than a deterioration in fiscal discipline. Higher integrity tends to improve the completeness and credibility of fiscal reporting, which may initially lower measured financial sustainability while strengthening long-term fiscal accountability.

From a theoretical perspective, this study contributes to the public sector accounting and institutional literature by extending institutional theory to the interpretation of financial sustainability as an accounting outcome shaped by governance quality, reporting practices, and institutional maturity, rather than as a purely macroeconomic indicator. The findings emphasize that fiscal sustainability indicators must be interpreted within their institutional and accounting contexts, as improvements in governance may initially reveal underlying fiscal vulnerabilities that were previously obscured. From a practical standpoint, the results offer important implications for policymakers, public financial managers, and auditors by underscoring that governance reforms and financial liberalization should not be evaluated solely based on short-term fiscal indicators, but also on their long-term contributions to transparency, accountability, and credible fiscal reporting.

During periods of institutional transition, policymakers may need to sequence transparency reforms alongside prudent fiscal management strategies, such as strengthening medium-term fiscal frameworks, improving debt recording and reporting systems, and enhancing the capacity of public sector audit institutions. These measures can help ensure that greater fiscal transparency does not undermine short-term fiscal stability, while still supporting credible and sustainable public financial management in the long run. In practical terms, the findings are particularly relevant for policy areas related to fiscal reporting reforms, debt transparency, and the strengthening of public sector audit functions. Enhancing integrity in these areas may initially reveal fiscal vulnerabilities through more comprehensive disclosure, but such transparency is essential for improving long-term financial sustainability and public accountability.

Despite these contributions, this study has several limitations. The analysis relies on composite indices to proxy institutional quality and financial sustainability, which may not fully capture country-specific accounting practices and fiscal structures. In addition, the sample is limited to APEC economies, which may constrain the generalizability of the findings to other regional or institutional contexts. The empirical model also assumes linear relationships among variables, potentially overlooking non-linear or threshold effects. Future research could address these limitations by employing alternative accounting-based measures of fiscal sustainability, expanding the analysis to other regional groupings, incorporating non-linear or interaction effects between governance and financial system variables, and examining the role of accounting reforms and fiscal transparency mechanisms in shaping long-term financial sustainability.

References

Afonso, A., & Jalles, J. T. (2015). Fiscal sustainability: A panel assessment for advanced economies. Applied Economics Letters, 22(11), 925–929. https://doi.org/10.1080/13504851.2014.987913

Afonso, A., & Silva, J. (2024). Institutions, fiscal discipline, and debt sustainability: Evidence from European countries. *Journal of Policy Modeling, 46*(2), 310–327. https://doi.org/10.1016/j.jpolmod.2023.11.004

Aimon, H., Kurniadi, A. P., Sentosa, S. U., & Yahya, Y. (2024). What is the Relationship Between Financial Stability and Economic Growth in APEC? International Journal of Sustainable Development and Planning, 19(7), 2691–2698. https://doi.org/10.18280/ijsdp.190725

Anjarwi, A. W. (2025). Tax burden and poverty in lower-middle-income countries: The moderating role of fiscal freedom. Development Studies Research, 12(1), 2466511. https://doi.org/10.1080/21665095.2025.2466511

Batuo, M., Mlambo, K., & Asongu, S. (2018). Linkages between financial development, financial instability, financial liberalisation and economic growth in Africa. Research in International Business and Finance, 45, 168–179. https://doi.org/10.1016/j.ribaf.2017.07.148

Bohn, H. (1998). The Behavior of U. S. Public Debt and Deficits. The Quarterly Journal of Economics, 113(3), 949–963. https://doi.org/10.1162/003355398555793

Boţa-Avram, C., Groşanu, A., Răchişan, P. R., & Gavriletea, M. D. (2018). The bidirectional causality between country-level governance, economic growth, and sustainable development. *Sustainability, 10*(2), 502. https://doi.org/10.3390/su10020502

Bui, D. (2018). How Financial Freedom and Integration Change Public Debt Impact on Financial Development in the Asia-Pacific: A Panel Smooth Transition Regression Approach. Australian Economic Review, 51(4), 486–501. https://doi.org/10.1111/1467-8462.12279

Cervelló-Royo, R., Devece, C., & Blanco-González Tejero, C. (2023). Economic freedom influences economic growth and unemployment: An analysis of the Eurozone. Economic Research-Ekonomska Istraživanja, 36(2), 2175007. https://doi.org/10.1080/1331677X.2023.2175007

Chen, C., & Neshkova, M. I. (2020). The effect of fiscal transparency on corruption: A panel cross-country analysis. Public Administration, 98(1), 226–243. https://doi.org/10.1111/padm.12620

Croce, E., Juan-Ramón, V. H., & Rother, P. (2003). Primary surplus behavior and risks to fiscal sustainability in emerging market countries. *IMF Staff Papers, 50*(1), 1–46.

Dabla-Norris, E., Allen, R., Zanna, L. F., Prakash, T., Kvintradze, E., Lledo, V., Yackovlev, I., & Gollwitzer, S. (2010). Budget institutions and fiscal performance in low-income countries (IMF Working Paper No. WP/10/80). International Monetary Fund.

Duan, C., Soh, W. N., Ong, T. S., & Abdul Rahim, N. B. (2025). Evidence from financial freedom moderating the relationship between government intervention and financial stability. Finance Research Letters, 72, 106556. https://doi.org/10.1016/j.frl.2024.106556

Economou, F. (2019). Economic freedom and asymmetric crisis effects on FDI inflows: The case of four South European economies. Research in International Business and Finance, 49, 114–126. https://doi.org/10.1016/j.ribaf.2019.02.011

Fernández-Rodríguez, E., García-Fernández, R., & Martínez-Arias, A. (2023). Institutional determinants of the effective tax rate in G7 and BRIC countries. Economic Systems, 47(2), 101079. https://doi.org/10.1016/j.ecosys.2023.101079

Frimpong, S., Yusuf, M. A., Boateng, E., Ankomah, K., & Abeka, M. J. (2023). Financial inclusion, economic freedom and financial stability in sub-Saharan Africa. Thunderbird International Business Review, 65(4), 429–441. https://doi.org/10.1002/tie.22341

Ghosh, A. R., Kim, J. I., Mendoza, E. G., Ostry, J. D., & Qureshi, M. S. (2013). Fiscal fatigue, fiscal space and debt sustainability in advanced economies. *The Economic Journal, 123*(566), F4–F30. https://doi.org/10.1111/ecoj.12010

Heritage Foundation. (2024). *2024 Index of economic freedom*. https://www.heritage.org/index

Hidayat, R., & Firmansyah, A. (2021). Good governance and public financial accountability: Evidence from Indonesia. *Jurnal Ilmu Akuntansi dan Bisnis Syariah, 3*(2), 157–172.

Idrus, A. (2024). Exploring Public Finance Policies: A Qualitative Inquiry into Fiscal Policy Analysis, Government Financial Management, and Public Sector Financial Health. Golden Ratio of Finance Management, 4(2), 87–99. https://doi.org/10.52970/grfm.v4i2.481

International Monetary Fund. (2019). Fiscal Monitor: How to Mitigate Climate Change. Washington, D.C.

International Monetary Fund. (2020). *Fiscal monitor: Policies to support people during the COVID-19 pandemic*. International Monetary Fund.

Khan, M. A., Khan, M. A., Khan, M. A., Haddad, H., Al-Ramahi, N. M., & Sherfudeen, N. (2023). RETRACTED: Country-level institutional quality and financial system efficiency: An international evidence. PLOS ONE, 18(8), e0290511. https://doi.org/10.1371/journal.pone.0290511

Kusumasari, B., Munajat, M. E., & Fauzi, F. Z. (2023). Measuring global pandemic governance: How countries respond to COVID-19. Journal of Management and Governance, 27(2), 603–629. https://doi.org/10.1007/s10997-022-09647-4

Montes, G. C., & Paschoal, P. C. (2016). Corruption: What are the effects on government effectiveness? Empirical evidence considering developed and developing countries. Applied Economics Letters, 23(2), 146–150. https://doi.org/10.1080/13504851.2015.1058900

Muslim, M., Bata Ilyas, Muh. F. G., & Sani, A. (2024). Analysis of Fiscal Policy and Financial Sustainability in Improving the Country's Economic Stability. Vifada Management and Social Sciences, 2(2), 36–55. https://doi.org/10.70184/yessman2024

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press.

OECD. (2017). *Public integrity handbook*. OECD Publishing.

Oman, C. P., & Arndt, C. (2006). Uses and Abuses of Governance Indicators. OECD. https://doi.org/10.1787/9789264026865-en

Onofrei, M., Toader, T., Vatamanu, A. F., & Oprea, F. (2021). Impact of Governments' Fiscal Behaviors on Public Finance Sustainability: A Comparative Study. Sustainability, 13(7), 3739. https://doi.org/10.3390/su13073739

Onyele, K., Onyekachi-Onyele, C., & Ikwuagwu, E. B. (2024). An Empirical Analysis on Institutional Quality, Fiscal Policy and Debt Sustainability in Sub-Saharan Africa (SSA). Journal of Governance Risk Management Compliance and Sustainability, 4(2), 16–31. https://doi.org/10.31098/jgrcs.v4i2.2178

Rahman, A., & Pratama, A. (2022). Institutional quality and fiscal performance in public sector accounting. *Jurnal Ilmu Akuntansi dan Bisnis Syariah, 4*(1), 45–60.

Sarpong-Kumankoma, E., Abor, J. Y., Aboagye, A. Q. Q., & Amidu, M. (2021). Economic freedom, competition and bank stability in Sub-Saharan Africa. International Journal of Productivity and Performance Management, 70(7), 1510–1527. https://doi.org/10.1108/IJPPM-06-2019-0310

Scott, W. R. (2014). *Institutions and organizations: Ideas, interests, and identities* (4th ed.). Sage Publications.

Senturk, N. K., Bayraktar, Y., Recepoglu, M., Ozyilmaz, A., & Balsalobre-Lorente, D. (2025). The effects of sub-components of economic freedom on load capacity factor: Empirical analysis for MENA countries. Journal of Environmental Management, 380, 124956. https://doi.org/10.1016/j.jenvman.2025.124956

Simo-Kengne, B. D., & Bitterhout, S. (2023). Corruption's effect on BRICS countries' economic growth: A panel data analysis. Journal of Economics, Finance and Administrative Science, 28(56), 257–272. https://doi.org/10.1108/JEFAS-04-2021-0041

Tekdemir, N., & Yeşil, E. (2025). An Empirical Investigation on the Relationship between Fiscal Transparency and Institutional Quality. Bulletin of Economic Theory and Analysis, 10(1), 233–256. https://doi.org/10.25229/beta.1589338

The Heritage Foundation. (2024). Index of Economic Freedom – Financial Freedom and Government Integrity.

Ullah, S., Ullah, A., & Zaman, M. (2024). Nexus of governance, macroeconomic conditions, and financial stability of banks: A comparison of developed and emerging countries. Financial Innovation, 10(1), 30. https://doi.org/10.1186/s40854-023-00542-x

World Bank. (2022). *Enhancing government effectiveness and accountability*. World Bank Publications.

World Bank. (2023). Worldwide Governance Indicators & World Development Indicators.

Yang, L., Hu, W., Su, Z., & Qiao, J. (2024). Impact of Anti-Corruption on the Sustainability of Local Government Debt in China: The Moderating Role of Fiscal Transparency. Sustainability, 16(21), 9507. https://doi.org/10.3390/su16219507

Yang, Z., Vitenu-Sackey, P. A., Hao, L., & Tao, Y. (2023). Economic freedom, inclusive growth, and financial development: A heterogeneous panel analysis of developing countries. PLOS ONE, 18(7), e0288346. https://doi.org/10.1371/journal.pone.0288346

Zeqiraj, V., Sohag, K., & Hammoudeh, S. (2022). Financial inclusion in developing countries: Do quality institutions matter? Journal of International Financial Markets, Institutions and Money, 81, 101677. https://doi.org/10.1016/j.intfin.2022.101677