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The Role of Regional Expenditure on Economic Growth with Fiscal Independence as a Moderating Variable in Districts/Cities of Southeast Sulawesi 2019-2023

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Abstract

Fiscal decentralization grants regional governments the authority to manage finances to promote development and economic growth. However, the effectiveness of regional spending in increasing economic growth is thought to be related to the capacity for fiscal independence. This study aims to analyze the influence of regional spending on economic growth and examine the role of fiscal independence as a moderating variable in 17 districts/cities in Southeast Sulawesi Province during the 2019–2023 period. The study used a quantitative approach with panel data of 85 observations. The analysis was conducted using panel data regression with the Fixed Effect Model (FEM) and Moderated Regression Analysis (MRA). The results show that regional spending has a positive and significant effect on economic growth. Conversely, fiscal independence has a positive but insignificant effect. Furthermore, fiscal independence has not been shown to moderate the effect of regional spending on economic growth. These findings indicate that increasing regional spending plays a role in driving economic growth, but the capacity for fiscal independence has not been able to strengthen this relationship. Therefore, regional governments need to optimize spending allocations in productive sectors, increase Regional Original Income (PAD), and strengthen the effectiveness and quality of regional financial governance.

Keywords Regional Spending; Fiscal Independence; Economic Growth; Moderation; Southeast Sulawesi.

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INTRODUCTION

Fiscal decentralization grants local governments the authority to manage resources and finances according to community needs. This policy is aimed at increasing the effectiveness and efficiency of governance, public services, and regional economic development. The success of decentralization is determined not only by the availability of fiscal resources, but also by the ability of local governments to allocate and use budgets effectively and efficiently. Decentralization

enables local governments to allocate resources based on the needs and preferences of local communities.(Oates, 1972).

The importance of regional spending is evident in the state of regional financial management nationally. Data from the Regional Financial Information System shows that as of July 2026, regional spending reached 45.27% of the budget ceiling, while current capital spending reached 20.26%.(DJPK, 2026)This situation demonstrates the ongoing challenges in optimizing budget implementation, particularly capital expenditures related to the provision of assets and infrastructure to support economic activity and public services. Therefore, attention to the quality and effectiveness of regional spending is crucial in driving regional development performance. This is relevant to the economic development of Southeast Sulawesi Province, which in 2025 grew by 5.79%, increasing from 5.40% in 2024. In the same period, the manufacturing industry sector grew by 14.91%.(BPS Southeast Sulawesi, 2026)This increase in economic growth indicates a growth in regional economic activity, but it does not yet explain the extent to which local government spending contributes to that growth. This is important to examine because each district/city has different economic characteristics and fiscal conditions.

Several studies have examined the relationship between government spending and economic growth, but have shown inconsistent results. Regional spending efficiency significantly impacts long-term economic growth and demonstrates the influence of fiscal independence on economic growth.(Putu & Setyari, 2026)On the other hand, government spending has a negative effect on economic growth.(Lakat & Kumenaung, 2025). These differences in findings indicate that higher government spending does not necessarily result in higher economic growth, so regional spending and fiscal capacity need to be considered simultaneously. Fiscal independence has the potential to influence the relationship between spending efficiency and economic growth. The ability to generate its own revenue, particularly through Regional Original Income (PAD), provides greater fiscal space for local governments in determining development priorities. Regions with greater fiscal independence have greater flexibility in directing budgets toward productive activities. Conversely, dependence on central government transfers can limit flexibility in determining budget priorities.

Regional fiscal capacity and Regional Original Income (PAD) have a strategic role in supporting economic growth by increasing the ability of regional governments to finance development, provide public infrastructure, and encourage regional economic activity.(Kusuma & Anwar, 2023)However, this research focuses

more on fiscal independence as a variable that has a direct influence on economic growth. Likewise,(Putu & Setyari, 2026)This study examines spending efficiency and fiscal independence as variables influencing economic growth. This situation indicates a research gap regarding how regional fiscal independence can influence the strength of the relationship between regional spending allocation and economic growth. Therefore, this study seeks to fill this gap by positioning fiscal independence as a moderating variable to gain a more comprehensive understanding of the effectiveness of regional spending in driving economic growth.

Southeast Sulawesi Province is relevant for testing this relationship due to the variation in economic characteristics and fiscal conditions across districts/cities. Differences in economic structures, including mining, manufacturing, agriculture, fisheries, trade, and services, have the potential to result in differences in local revenue (PAD) capacity, spending patterns, regional budget (APBD) management, and economic growth. Furthermore, the 2019-2023 period encompasses conditions before and after the COVID-19 pandemic, which could impact fiscal policy and regional economic performance. Based on these conditions, this study examines the role of regional spending on economic growth with fiscal independence as a moderating variable in Southeast Sulawesi districts/cities for the 2019-2023 period. This research is expected to broaden the study of regional financial economics by explaining the role of fiscal capacity in the relationship between regional spending and economic growth. Practically, the research findings can provide input for local governments in improving regional budget management, strengthening fiscal independence, and directing regional spending toward programs that support economic growth.

METHODS

This study aims to analyze the role of regional spending on economic growth and examine fiscal independence as a moderating variable in districts/cities in Southeast Sulawesi Province. The study uses panel data, combining cross-section data from 17 districts/cities (15 regencies and 2 cities) with time series data from 2019–2023, resulting in 85 observations. The sampling technique used saturated sampling, with all districts/cities serving as the research sample. The data used is secondary data obtained from the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia, the Central Statistics Agency (BPS) of Southeast Sulawesi Province, and the district/city BPS. The analysis was conducted using EViews 13 through descriptive statistics stages and panel data model selection using the Chow Test, Hausman Test, and Lagrange Multiplier (LM)

Test.(Hendarmin., 2026)Diagnostic testing is tailored to the characteristics of the panel data and the estimation model used. Classical assumption testing is not performed comprehensively as in Ordinary Least Squares (OLS) regression, as its application is tailored to the characteristics of the data and the estimation method.(Basuki & Prawoto, 2019). Testing of classical assumptions in this study includes multicollinearity and heteroscedasticity.

Hypothesis testing uses panel data regression with a moderation approach, with regional spending as the independent variable, economic growth as the dependent variable, and fiscal independence as the moderating variable. The research model is formulated as follows:

$Y = \alpha + \beta 1X + \beta 2M + \beta 3 (X \times M) + \epsilon$

Where:

Y	= Economic Growth.
α	= constant.
$\beta 1X$	= Regional Shopping
$\beta 2M$	= Fiscal Independence
$\beta 3 (X \times M)$	= Interaction variable
ϵ	= error term.

RESULTS AND DISCUSSION

RESEARCH RESULT

The mean, standard deviation, variance, total, range, kurtosis, and skewness (slope of the distribution) are the components that form the descriptive statistical analysis of each variable, including regional spending, fiscal independence and economic growth.

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Standard Deviation
Y	85	-3.4	22.52	4.05	3.47
X	85	71.63	111.07	92.19	8.29
M	85	1.72	31.55	7.09	6.50
Valid N (list wise)	85				

Source: Processed data, 2026

Based on the results of descriptive statistical analysis, the economic growth variable (Y) showed significant variation during the study period. This is reflected in the minimum value of -3.40 percent and the maximum value of 22.52 percent. Meanwhile, the average value of economic growth was 4.05 percent with a standard deviation of 3.47 percent. These values indicate that economic growth in the research object had a fairly diverse level of variation during the observation period, with

observations experiencing negative growth to reaching positive growth of 22.52 percent.

The regional expenditure variable (X) has an average value of 92.19 percent with a standard deviation of 8.29 percent. This indicates that on average, regional expenditure on the research object reached 92.19 percent. The standard deviation value of 8.29 percent indicates that there is variation in regional expenditure between observations, although the level of data distribution is relatively lower compared to the average value. Thus, the value of regional expenditure between research objects shows differences, but not too far from the average value. Furthermore, the fiscal independence variable (M) has an average value of 7.09 with a standard deviation of 6.50. This value indicates that the average level of fiscal independence across the research objects is 7.09. The standard deviation of 6.50 indicates that the fiscal independence data has a relatively large spread compared to its average value. This condition indicates a significant difference in the level of fiscal independence among the research objects during the observation period.

Table 2. Chow Test

Testing	Statistics	df	Probability
Cross-section F	4.521960323593921	(16.66)	0.0000
Cross-section Chi-square	62.91205569636952	16	0.0000

Source: Processed data, 2026

Based on the Chow Test results presented in Table 2, a probability value of 0.0000 was obtained, lower than the 0.05 significance level. These results indicate that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). Therefore, the model selection process was continued with the Hausman Test to determine the most appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM).

Table 3. Hausman test

Testing	Chi-Sq. Statistic	df	Probability
Random cross-section	6.150510879014348	2	0.04617783123256288

Source: Processed data, 2026

Based on the Hausman test results, the probability value of 0.0461 is less than 0.05. Therefore, the selected model is the Fixed Effect Model (FEM), which is then used in panel data regression analysis.

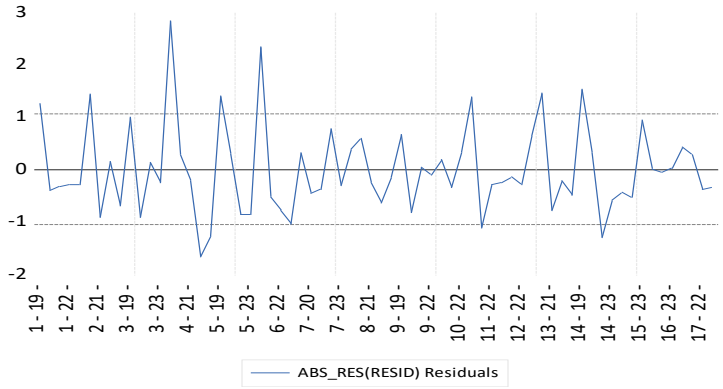
Table 4. Multicollinearity Test

	X	M
X	1,000,000	-0.340546
M	-0.340546	1,000,000

Source: Processed data, 2026

Based on the test results, the correlation coefficient value between the Regional Expenditure (X) and Fiscal Independence (Z) variables is -0.340546, which is below the limit of 0.85. Thus, it can be concluded that there is no indication of high multicollinearity between variables X and Z, so that the research model meets the multicollinearity test criteria.(Napitupulu, RB, Simanjutak, TP, Hutabarat, L., Damanik, H., Harianja, H., Sirait & & Tobing, 2021).

Figure 1. Heteroscedasticity Test



Source: Processed data, 2026

Based on the results of the heteroscedasticity test using the residual graph, it can be seen that the residual values are within the range of -500 to 500 and do not exceed this limit. This condition indicates that the residual variance is relatively constant, thus it can be concluded that there is no indication of heteroscedasticity in the research model. Thus, the model is declared to meet the heteroscedasticity test criteria.(Napitupulu, RB, Simanjutak, TP, Hutabarat, L., Damanik, H., Harianja, H., Sirait & & Tobing, 2021).

Table 5. Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15.93772	5.501980	-2.896725	0.0051
X	0.198720	0.058613	3.390381	0.0012
M	0.619563	0.471254	1.314713	0.1932
X1*M	-0.004279	0.005015	-0.853251	0.3967

Source: Processed data, 2026

Based on the results of the partial test (t-test), the regional expenditure variable (X) has a coefficient of 0.198720 with a t-statistic value of 3.390381 and a probability of 0.0012. A probability value smaller than 0.05 indicates that regional expenditure has a positive and significant effect on economic growth. This indicates that increased regional expenditure is related to increased economic growth in the districts/cities that are the objects of research during the 2019–2023 period.

The fiscal independence variable (M) has a coefficient of 0.619563 with a t-

statistic of 1.314713 and a probability of 0.1932. Because the probability value is greater than 0.05, fiscal independence does not significantly influence economic growth. Although the relationship is positive, these results do not provide sufficient statistical evidence to confirm the influence of fiscal independence on economic growth.

Furthermore, the interaction variable between regional spending and fiscal independence (X1*M) obtained a coefficient of -0.004279 with a t-statistic value of -0.853251 and a probability of 0.3967. A probability value greater than 0.05 indicates that the interaction between regional spending and fiscal independence does not have a significant effect on economic growth. Thus, fiscal independence is not proven to moderate the effect of regional spending on economic growth. A negative interaction coefficient indicates a negative direction of the interaction, but because it is not statistically significant, this direction cannot be used as a basis to conclude that fiscal independence weakens the effect of regional spending on economic growth.

Table 6.F test

Model	F-statistic	Prob.
Fixed Effect Model	4.2522	0.0006

Source: Processed data, 2026

Based on the results of the simultaneous test (F test), the F-statistic value was obtained at 4.252166 with a probability value of 0.000006. This probability value is smaller than the 5% significance level (0.000006 < 0.05), so the regression model is declared simultaneously significant. These results indicate that regional spending, fiscal independence, and the interaction between regional spending and fiscal independence together have a significant effect on economic growth. Thus, the model used in this study is statistically able to explain the relationship between the independent variables, moderating variables, and dependent variables.

Table 7. Coefficient of Determination Test

R-squared	Adjusted R-squared
0.5542	0.4238

Source: Processed data, 2026

Based on the results of the coefficient of determination test, the Adjusted R-squared value of 0.423833 indicates that the regional spending, fiscal independence, and interaction variables in the model can explain 42.38% of the variation in economic growth. Meanwhile, 57.62% of the variation in economic growth is explained by factors other than the research model. These results indicate that the model has sufficient explanatory power for the variation in economic growth in the research object.

RESEARCH DISCUSSION

The Role of Regional Spending in Economic Growth

The partial test results show that regional spending has a positive and significant effect on economic growth, with a regression coefficient of 0.198720, a t-statistic of 3.390381, and a probability of 0.001191 < 0.05. These results indicate that increased regional spending contributes to strengthening economic activity through the provision of infrastructure, public services, and support for community productive activities. Theoretically, this finding aligns with the Keynesian perspective, which positions government spending as a fiscal instrument to increase aggregate demand and boost economic output. Productively allocated government spending also has the potential to increase regional production capacity and productivity. Similar findings were also demonstrated by(Lakat & Kumenaung, 2025)based on data from 508 districts/cities for the 2018–2022 period, which identified the significant influence of employee spending and goods and services spending on per capita income and GRDP.

The Role of Fiscal Independence in Economic Growth

The partial test results show that fiscal independence has a positive coefficient of 0.619563, with a t-statistic of 1.314713 and a probability of 0.1932 > 0.05. Thus, fiscal independence does not have a statistically significant effect on economic growth. This finding suggests that increasing regional revenue capacity does not necessarily translate into increased economic growth without the support of effective and productive budget management and allocation. Theoretically, these results can be explained through the perspective of fiscal federalism.(Oates, 1972), which emphasizes that fiscal decentralization has the potential to increase the efficiency of public goods provision according to regional needs. However, these benefits depend on the ability of local governments to manage their fiscal resources. Therefore, fiscal independence is a supporting capacity for development, not a direct guarantee of economic growth.

This finding is different from(Siregar & Pratiwi, 2017), which found a negative and significant influence of regional financial independence on economic growth based on data from district/city governments in Indonesia for the period 2009–2013. On the other hand,(Ari Mulianta Ginting, Muhammad Zilal Hamzah, 2019)found that fiscal decentralization had a positive and significant impact on regional economic growth during the 2013–2018 period. These differences in results indicate that the influence of fiscal capacity on economic growth depends on regional characteristics, observation period, measurement indicators, and estimation methods. Furthermore, the effectiveness of fiscal independence in driving economic growth is

largely determined by spending orientation, particularly the allocation of productive capital expenditures.

CONCLUSION

The research results show that regional spending has a positive and significant effect on economic growth, while fiscal independence has a positive but insignificant effect. Furthermore, fiscal independence has not been shown to moderate the effect of regional spending on economic growth. These findings underscore the importance of effective regional spending allocation, strengthened fiscal capacity, and productive financial governance in driving regional economic growth. Regional governments need to improve spending effectiveness by prioritizing productive sectors, optimizing Regional Original Revenue (PAD), and strengthening transparent, accountable, and results-oriented financial governance. Furthermore, synergy between regional revenue and spending policies and strengthened coordination with the central government are needed. Future research is recommended to add other economic and social variables, extend the observation period, use a more diverse range of fiscal independence indicators, and apply estimation methods that consider regional characteristics and the possibility of nonlinear relationships.

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