Escalate: Economics and Business Journal

https://journal.takaza.id/index.php/escalate

Vol. 04, No. 02, 2026, pp. 729-741
E-ISSN: 3025-4213

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The Influence of Regional Financial Performance Indicators on Economic Growth in West Java Province

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Article History:
Received : 19-08-2026
Revised : 20-08-2026
Accepted : 03-09-2026

Keywords: Capital Expenditure, Regional Independence, Economic Growth, Tax Ratio, Fiscal Transfer

***Abstract**: Regional economic growth is related to the government's ability to manage financial resources effectively. This study aims to analyze the effect of Tax Ratio, Effectiveness of Regional Original Revenue (PAD), Regional Financial Dependence, Regional Independence, and Capital Expenditure on Economic Growth in regencies and cities of West Java Province for the period 2020–2024. The study uses an explanatory quantitative approach with an ex post facto design. The population and sample cover 27 regencies and cities over five years, resulting in 135 observations. Secondary data were collected through documentation from BPS, DJPK, and related institutions, then analyzed using panel data regression with a Fixed Effect Model (FEM). The results show that Tax Ratio has a positive and significant effect on Economic Growth (coefficient = 8.131506; p = 0.0418), Regional Financial Dependence has a positive and significant effect (coefficient = 0.293316; p = 0.0000), Regional Independence has a positive and significant effect (coefficient = 0.765158; p = 0.0000), and Capital Expenditure has a positive and significant effect (coefficient = 16.65972; p = 0.0001), while PAD Effectiveness has no significant effect (coefficient = -0.024537; p = 0.1982). The coefficient of determination (Adjusted R^2) is 0.425251, indicating that the five variables explain 42.53% of the variation in Economic Growth. In conclusion, Tax Ratio, Regional Financial Dependence, Regional Independence, and Capital Expenditure are significant factors associated with Economic Growth, while PAD Effectiveness is not significant.*

How to Cite: Maria Kristi Ningsi Usfinit, Agustina Suparyati.(2026). *The Influence of Regional Financial Performance Indicators on Economic Growth in West Java Province*. 4(2). pp.729-741. https://doi.org/10.61536/escalate.v4i02.737

https://doi.org/10.61536/escalate.v4i02.737

Introduction

Economic growth is one of the main indicators used to measure the success of a region's development because high economic growth indicates increased production of goods and services, which impacts public welfare. In the era of fiscal decentralization in Indonesia, local governments have gained broader authority in managing financial resources to encourage independent economic development. The regional autonomy policy, implemented since the enactment of Law Number 23 of 2014 concerning Regional Government, requires each region to optimize its fiscal potential by increasing regional revenue and effective financial management. This situation demonstrates the crucial role of regional financial performance in supporting sustainable economic growth. The better the regional financial management, the greater the region's opportunity to improve economic development and the welfare of its people (Sulaeman & Hanifah, 2022).

West Java is a province that plays a strategic role in the national economy, serving as one of the largest centers of industrial, trade, and investment activity in Indonesia and contributing significantly to the national Gross Regional Domestic Product (GRDP). Its high population, the development of industrial areas, and increasing economic activity give West Java significant potential for achieving high economic growth. However, this potential has not been fully matched by equitable economic growth across all regencies and cities. Some regions have recorded high economic growth, while others have experienced relatively low growth. The 2020–2024 period also saw fluctuations in economic growth between regions, with Indramayu Regency recording 9.76 percent economic growth in 2023, while several other regencies and cities showed lower growth rates or experienced slowdowns in certain periods. These differences indicate variations in the ability of local governments to manage their financial resources.

These issues demonstrate that regional economic growth is not only related to the potential of economic resources, but also to the ability of local governments to manage finances effectively and efficiently. The disparity in economic growth achievements between regions indicates differences in fiscal performance that require further analysis. One indicator related to fiscal capacity is the Tax Ratio, which describes the government's ability to collect tax revenue compared to economic activity as reflected in the GRDP. A low Tax Ratio indicates that tax revenue potential has not been optimally explored, thus limiting the ability of local governments to provide infrastructure, public services, and development programs that support economic growth. In addition to the Tax Ratio, the effectiveness of Regional Original Income (PAD) is also a crucial issue because it indicates the ability of local governments to realize revenue targets while optimizing revenue sources derived from regional taxes, regional levies, the results of managing separated regional assets, and other legitimate sources of income.

Regional fiscal problems are also evident in the level of dependence on central government transfer funds and the level of regional independence. High regional financial dependence indicates that the region's ability to generate its own revenue is still relatively low, thus limiting the flexibility of local governments in determining development priorities according to local needs. Conversely, regions with a low level of dependence tend to have better fiscal capacity to allocate budgets effectively to productive activities. Regional independence is also a crucial aspect because the ability of local governments to finance government and development needs through their own revenue sources provides flexibility in determining development priorities. The higher the level of regional independence, the greater the opportunity for regions to increase economic growth through resource optimization and more effective development implementation (Novianty & Alfianty, 2025). Furthermore, capital expenditure plays a role in supporting the development of infrastructure and public facilities that can increase community productivity, facilitate the distribution of goods and services, attract investment, and create new jobs.

The research problem is also reinforced by the differences in results and limitations of previous studies. Holung, Kawung, and Tumangkeng (2021) showed that regional financial performance has a positive effect on economic growth, while regional independence has not had a significant effect. Karenina (2021) also showed that regional independence has not had a significant effect on economic growth. Conversely, Maryanti, Handra, and Yonnedi (2023) found that regional financial capacity influences economic growth, while Anjani and Ayuningsasi (2024) showed that fiscal independence has a positive effect on economic growth. Jadmiko, Pratama, and Muthya (2025) showed that increasing fiscal independence can support regional economic growth, while Azizah and Bagas (2025) found that regional government financial performance influences economic growth. Prasetyo and Handayani (2024) also showed that PAD has a positive and significant effect on regional economic growth. These differences in results indicate that the relationship between regional financial performance indicators and economic growth still requires further study. In addition, most previous studies only use one or two

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https://doi.org/10.61536/escalate.v4i02.737

fiscal indicators, so they have not been able to comprehensively explain the influence of regional financial performance indicators on economic growth.

Based on these conditions, this study aims to analyze the influence of the Tax Ratio, the Effectiveness of Regional Original Revenue (PAD), Regional Financial Dependence, Regional Independence, and Capital Expenditure on economic growth in regencies and cities in West Java Province for the period 2020–2024. This research is important to conduct due to fluctuations in economic growth between regions, differences in previous research results, limitations of previous research, and the importance of increasing regional fiscal capacity. The novelty of this study lies in the simultaneous use of five regional financial performance indicators, namely the Tax Ratio, PAD Effectiveness, Regional Financial Dependence, Regional Independence, and Capital Expenditure, so as to provide a more comprehensive picture of the influence of regional financial performance on economic growth. In addition, this study uses all regencies and cities in West Java Province during the period 2020–2024, which includes the economic recovery period after the Covid-19 pandemic, so it is expected to produce more representative and actual findings. Thus, this study is expected to provide empirical evidence regarding the influence of these five indicators on economic growth and become a consideration for local governments in evaluating and improving the quality of regional financial management to support more optimal economic development.

Research methods

This study uses a quantitative approach with an explanatory research method to analyze the influence of regional financial performance indicators on economic growth in districts and cities in West Java Province for the 2020–2024 period. The quantitative approach was chosen because the study focuses on examining the relationship between variables through measurable and statistically analyzable data. According to Sugiyono (2019), quantitative research methods are research methods based on the philosophy of positivism that are used to examine specific populations or samples with the aim of testing predetermined hypotheses through statistical data analysis. Quantitative research is also used to objectively test theories by examining the relationship between measurable variables, resulting in numerical data that are analyzed using statistical methods (Rifka Al Khilyatul Ma'rifat, I Made Suraharta, 2024).

This explanatory research type is used because this study aims to explain the influence of Tax Ratio, Effectiveness of Regional Original Income (PAD), Regional Financial Dependence, Regional Independence, and Capital Expenditure on Economic Growth. This study also uses an ex post facto design because all research variables have occurred naturally so that the researcher does not provide treatment or manipulation to the variables studied. The data used are secondary data in the form of panel data that combines cross-section data from 27 regencies and cities in West Java Province with time series data for the period 2020–2024. Data collection is carried out through a documentation method by utilizing local government financial reports, budget realization reports, regional financial statistics, and economic growth data obtained from the Central Statistics Agency (BPS), the Directorate General of Fiscal Balance (DJPK), and other relevant government institutions.

The research instruments are documents and secondary data used to measure the variables of Tax Ratio, PAD Effectiveness, Regional Financial Dependence, Regional Independence, Capital Expenditure, and Economic Growth. Data were obtained from regional government financial reports, Gross Regional Domestic Product (GRDP) data, Regional Revenue and Expenditure Budget (APBD) realization reports, and statistical publications published by the DJPK Ministry of Finance of the Republic of Indonesia and BPS. Economic growth is measured based on the GRDP growth rate at constant prices, while the Tax Ratio is measured through the comparison of regional tax revenues with GRDP. PAD Effectiveness is measured through the comparison of PAD revenue realization with PAD revenue targets, Regional Financial Dependence through the comparison of transfer revenue with total regional revenue, Regional Independence through the comparison of PAD with total regional revenue, while Capital Expenditure is measured through the comparison of total capital expenditure with total regional expenditure.

https://doi.org/10.61536/escalate.v4i02.737

The data analysis technique used is panel data regression analysis because the research data is a combination of cross-sectional data of districts and cities in West Java Province and time series data for the 2020–2024 period. Panel data regression analysis is used to examine the effect of Tax Ratio, PAD Effectiveness, Regional Financial Dependence, Regional Independence, and Capital Expenditure on Economic Growth. The selection of the regression model is carried out through the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test to determine the most appropriate model between the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Furthermore, hypothesis testing is carried out through the coefficient of determination (R^2), F Test, and t Test to determine the model's ability to explain the dependent variable and the influence of independent variables simultaneously and partially.

The study population covers all 27 districts and cities in West Java Province, consisting of 18 regencies and 9 cities, with an observation period of 2020–2024. Due to the relatively small population size and the availability of complete data, this study employed a saturated or census sampling technique, thus utilizing all members of the population as the research sample. Thus, the research analysis unit encompassed all 27 districts and cities over the five years of observation, resulting in 135 observations analyzed using a panel data approach.

The research procedure was carried out systematically, starting from defining the problem based on the conditions of economic growth and regional financial performance in West Java Province, compiling a theoretical basis and previous research, determining variables and research hypotheses, and collecting and processing data. Secondary data were collected through documentation methods from regional government financial reports, the Regional Budget (APBD), Regional Gross Regional Domestic Product (GRDP), and publications from the Directorate General of Taxes (DJPK) and Statistics Indonesia (BPS) for 27 districts and cities during the 2020–2024 period. Furthermore, the data were processed into indicators of Tax Ratio, PAD Effectiveness, Regional Financial Dependence, Regional Independence, Capital Expenditure, and Economic Growth according to established measurements.

The next step is to conduct panel data regression analysis by first determining the most appropriate model through the Chow Test, Hausman Test, and Lagrange Multiplier Test. After the regression model is determined, a determination coefficient test is conducted to determine the ability of independent variables to explain variations in Economic Growth, then an F Test to determine the influence of all independent variables simultaneously and a t Test to determine the influence of each variable partially. Hypothesis testing is carried out based on a significance level of 0.05 so that the results of the analysis can be used to explain the influence of Tax Ratio, PAD Effectiveness, Regional Financial Dependence, Regional Independence, and Capital Expenditure on Economic Growth in districts and cities in West Java Province for the period 2020–2024.

Results and Discussion

Descriptive Statistics

1. Descriptive Statistical Analysis

Table 1. Descriptive Statistics

	PE	TR	EPAD	KKD	KD	BM
Mean	3.513111	0.587037	93.68215	61.11881	24.10148	0.139444
Median	4,850,000	0.480000	94.577000	65.46000	19.07000	0.122000
Maximum	9.760000	1,830,000	145.3400	81.58000	46.97000	0.448000
Minimum	-3,800,000	0.140000	42.16000	29.65000	6,700,000	0.059000
Std. Dev	2.671090	0.384481	16.67743	13.06937	11.52520	0.062140

Source: Eviews 9 Data Processing Results

A. Economic growth

Economic Growth had a minimum value of -3.80, which occurred in Karawang Regency in 2020, indicating a fairly deep economic contraction due to the impact of the COVID-19 pandemic. Meanwhile, the maximum value of 9.76 was achieved by Indramayu Regency in 2023, indicating high regional economic activity in that year. The average (mean) value of Economic Growth during the study period was 3.51 with a median value of 4.85, indicating that in general, regencies and cities in West Java Province experienced

https://doi.org/10.61536/escalate.v4i02.737

positive economic growth. The standard deviation of 2.67, which is smaller than the average value, indicates that the distribution of economic growth data is relatively good and does not fluctuate too much between regions during the 2020–2024 period.

B. **Tax Ratio**

The Tax Ratio had a minimum value of 0.14 in Indramayu Regency in 2020, while the maximum value of 1.83 was achieved by Bekasi City in 2022. The average (mean) Tax Ratio value of 0.59 with a median of 0.48 indicates that the ability of local governments to optimize tax revenues for economic activities is still relatively low. Meanwhile, the standard deviation value of 0.38, which is smaller than the average value, indicates that the variation of the Tax Ratio between regencies and cities in West Java Province tends to be low and the data distribution is relatively even.

B. Effectiveness of Regional Original Income

The effectiveness of Local Original Revenue (PAD) had a minimum value of 42.16 in Pangandaran Regency in 2020, while the maximum value of 145.34 was obtained by Tasikmalaya City in 2021. The average (mean) PAD value of 93.68 with a median of 94.58 indicates that in general, local governments in West Java Province have been able to realize PAD targets close to the set targets. The standard deviation value of 16.68, which is smaller than the average value, indicates that the distribution of PAD data is relatively good and does not show too high fluctuations during the study period.

C. Regional Financial Dependence

Regional Financial Dependence has a minimum value of 29.65 in Bekasi City in 2021, while the maximum value of 81.58 occurred in Tasikmalaya Regency in 2023. The average (mean) KKD value of 61.12 with a median of 65.46 indicates that most regencies and cities in West Java Province still have a fairly high level of dependence on transfer funds from the central government.

The standard deviation value of 13.07, which is smaller than the average value, indicates that the level of regional financial dependence has a relatively good data distribution and does not vary too much.

D. Regional Independence

Regional Independence has a minimum value of 6.70 which occurred in Pangandaran Regency in 2020, while the maximum value of 46.97 was achieved by Depok City in 2023. The average value (mean) of Regional Independence is 24.10 with a median of 19.07, which indicates that the level of fiscal independence of regencies and cities in West Java Province is still classified as low to moderate. The standard deviation value of 11.53 which is smaller than the average value indicates that the distribution of regional independence data is relatively good and does not fluctuate too much during the study period.

E. Capital Expenditure

Capital Expenditure has a minimum value of 0.059 which occurred in Cimahi City in 2022, while the maximum value of 0.448 was achieved by Indramayu Regency in 2023 and Bekasi City in 2023. The average (mean) value of Capital Expenditure is 0.139 with a median of 0.122, which indicates that the proportion of capital expenditure to total regional

https://doi.org/10.61536/escalate.v4i02.737

expenditure in regencies and cities of West Java Province is still relatively low. The standard deviation value of 0.062 which is smaller than the average value indicates that the distribution of capital expenditure data tends to be homogeneous and does not vary much between regions during the 2020–2024 period.

2. Descriptive Analysis of Variable Averages

Table 2.Average and Classification of West Java Province 2020-2024

Kab_Kota	PE	Kat.PE	TR	Kat.TR	EPAD	Kat.EPAD	KKD	Kat.KKD	KD	Pola KD	BM	Kat.BM
Kab Bandung	3,42	Sedang	0,43	Rendah	96,74	Efektif	65,81	Sangat Tinggi	19,58	Instruktif	0,14	Sedang
Kab Bandung Barat	3,27	Sedang	0,84	Sedang	82,26	Cukup Efektif	62,73	Sangat Tinggi	21,48	Instruktif	0,14	Sedang
Kab Bekasi	3,20	Sedang	0,58	Sedang	97,96	Efektif	39,75	Cukup Tinggi	42,71	Konsultatif	0,14	Sedang
KaB Bogor	3,47	Sedang	0,93	Sedang	112,69	Sangat Efektif	44,97	Tinggi	40,10	Konsultatif	0,17	Sedang
Kab Ciamis	3,70	Sedang	0,20	Rendah	107,86	Sangat Efektif	73,85	Sangat Tinggi	10,29	Instruktif	0,14	Sedang
Kab Cianjur	3,61	Sedang	0,41	Rendah	80,76	Cukup Efektif	69,74	Sangat Tinggi	16,25	Instruktif	0,10	Sedang
Kab Cirebon	3,23	Sedang	0,50	Sedang	89,76	Cukup Efektif	68,63	Sangat Tinggi	17,81	Instruktif	0,09	Rendah
Kab Garut	3,46	Sedang	0,22	Rendah	99,32	Efektif	73,68	Sangat Tinggi	10,90	Instruktif	0,12	Sedang
Kab Indramayu	2,76	Rendah	0,17	Rendah	102,39	Sangat Efektif	70,99	Sangat Tinggi	16,76	Instruktif	0,17	Sedang
Kab Karawang	3,59	Sedang	0,43	Rendah	106,26	Sangat Efektif	54,17	Sangat Tinggi	31,82	Konsultatif	0,17	Sedang
Kab Kuningan	4,01	Sedang	0,36	Rendah	79,76	Kurang	75,13	Sangat Tinggi	11,22	Instruktif	0,11	Sedang
Kab Majalengka	4,96	Sedang	0,38	Rendah	85,78	Cukup Efektif	70,37	Sangat Tinggi	16,08	Instruktif	0,17	Sedang
Kab Pangandaran	3,81	Sedang	0,48	Rendah	72,18	Kurang Efektif	64,85	Sangat Tinggi	14,36	Instruktif	0,24	Tinggi
Kab Purwakarta	3,23	Sedang	0,40	Rendah	79,85	Kurang Efektif	64,46	Sangat Tinggi	22,50	Instruktif	0,10	Sedang
Kab Subang	2,95	Rendah	0,60	Sedang	88,69	Cukup Efektif	69,36	Sangat Tinggi	16,89	Instruktif	0,11	Sedang
Kab Sukabumi	3,66	Sedang	0,37	Rendah	103,02	Sangat Efektif	70,55	Sangat Tinggi	16,73	Instruktif	0,14	Sedang
Kab Sumedang	3,23	Sedang	0,52	Sedang	87,18	Cukup Efektif	69,67	Sangat Tinggi	17,31	Instruktif	0,15	Sedang
Kab Tasikmalaya	3,30	Sedang	0,20	Rendah	95,52	Efektif	77,34	Sangat Tinggi	9,73	Instruktif	0,11	Sedang
Kota Bandung	3,39	Sedang	0,61	Sedang	77,67	Kurang Efektif	41,57	Tinggi	40,49	Konsultatif	0,12	Sedang
Kota Banjar	3,78	Sedang	0,38	Rendah	85,33	Cukup Efektif	73,95	Sangat Tinggi	16,77	Instruktif	0,09	Rendah
Kota Bekasi	3,24	Sedang	1,67	Tinggi	84,07	Cukup Efektif	32,72	Cukup Tinggi	42,93	Konsultatif	0,23	Tinggi
Kota Bogor	3,85	Sedang	1,37	Tinggi	97,57	Efektif	43,99	Tinggi	41,73	Konsultatif	0,15	Sedang
Kota Cimahi	3,66	Sedang	0,52	Sedang	109,18	Sangat Efektif	57,91	Sangat Tinggi	28,76	Konsultatif	0,09	Rendah
Kota Cirebon	3,44	Sedang	0,70	Sedang	88,43	Cukup Efektif	55,54	Sangat Tinggi	33,23	Konsultatif	0,10	Sedang
Kota Depok	3,52	Sedang	1,55	Tinggi	105,96	Sangat Efektif	37,96	Cukup Tinggi	44,31	Konsultatif	0,24	Tinggi
Kota Sukabumi	3,56	Sedang	0,44	Rendah	102,27	Sangat Efektif	59,72	Sangat Tinggi	30,28	Konsultatif	0,09	Rendah
Kota Tasikmalaya	3,55	Sedang	0,59	Sedang	111,37	Sangat Efektif	61,18	Sangat Tinggi	19,71	Instruktif	0,15	Sedang

A. The Economic Growth category describes the growth rate of a region's economic activity. A contraction category indicates a decline in regional economic activity. A low category indicates limited economic growth. A moderate category indicates relatively good and stable economic growth. A high category indicates rapid economic development, while a very high category indicates a region experiencing very strong economic growth compared to other regions.
B. The Tax Ratio category indicates the local government's ability to optimize tax revenue relative to Gross Regional Domestic Product (GRDP). A low category indicates a small contribution of local taxes to the economy. A moderate category indicates a relatively good tax collection capacity. Meanwhile, a high category indicates a strong local government capability in leveraging local tax potential to support development.
C. The Regional Original Revenue Effectiveness category describes the ability of local governments to achieve their Regional Original Revenue (PAD) targets. The highly effective category indicates that PAD realization has exceeded the set target. The effective category indicates that PAD realization has nearly reached the target. The moderately effective category indicates that PAD target achievement still needs improvement. The less effective category indicates that PAD realization is not optimal, while the ineffective category indicates the region's low ability to achieve its PAD target.
D. The Regional Financial Dependence category indicates the level of dependence of local governments on transfer funds from the central government. A very low category indicates that the region is relatively independent in financing development. Low and moderate categories indicate that the region still requires some level of central government support. Fairly high and high categories indicate that the central government still plays a significant role. Meanwhile, a very high category indicates that local governments remain highly dependent on transfer funds from the central government for

https://doi.org/10.61536/escalate.v4i02.737

governance and regional development.

E. The Regional Independence Relationship Pattern illustrates the level of regional capability in implementing regional autonomy. The instructive relationship pattern indicates that the central government plays a more dominant role than the regional government because the regions are not yet capable of implementing regional autonomy independently. The consultative relationship pattern indicates that central government intervention is starting to decrease because the regions are considered more capable of implementing regional autonomy. The participatory relationship pattern indicates that the central government's role is decreasing because the level of regional independence is approaching the ability to carry out regional autonomy affairs. Meanwhile, the delegative relationship pattern indicates that central government intervention is almost non-existent because the regions have become truly independent in financing and implementing regional government affairs.
F. The Capital Expenditure category describes the proportion of regional spending allocated for fixed assets and infrastructure development. A low category indicates that capital expenditure allocations are still limited, resulting in a relatively small impact on development. A medium category indicates that the regional government has allocated capital expenditures sufficiently. Meanwhile, a high category indicates a greater regional government commitment to infrastructure development and the provision of public facilities to support regional economic growth.

Data analysis

1. Chow Test

Table 3. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.107733	(26,103)	0.0044
Cross-section Chi-square	57.591833	26	0.0004

Source: Data Processed using Eviews9

Based on the results of the Chow Test in Table 3, the Cross-section F Prob. value is 0.0004 and the Cross-section Chi-square Prob. value is 0.0004. These probability values are smaller than the 0.05 significance level (0.0004 < 0.05), so H_0 is rejected and H_1 is accepted. Thus, the more appropriate model to use in this study is the Fixed Effect Model (FEM). These results indicate that there are differences in characteristics between districts and cities in West Java Province that need to be accommodated in the research model.

https://doi.org/10.61536/escalate.v4i02.737

2. Hausman test

Table 4. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	50.127911	5	0.0000

Source: Data Processed Using Eviews9

Based on the results of the Hausman Test in Table 4, the Cross-section Random Prob. value is 0.0000. This probability value is smaller than the significance level of 0.05 (0.0000 < 0.05), so H_0 is rejected and H_1 is accepted. Thus, the most appropriate model used in this study is the Fixed Effect Model (FEM). These results indicate that differences in the characteristics of each district and city in West Java Province have an influence on the model so that it needs to be accommodated through the Fixed Effect Model (FEM) approach.

3. Coefficient of Determination R^2

Table 5.Results of the Determination Coefficient Test

R-squared	0.558215
Adjusted R-squared	0.425251

Source: Data Processed using Eviews9

Based on the results of the regression analysis using the Fixed Effect Model (FEM), the Adjusted R-squared value was obtained at 0.425251 or 42.53%. This indicates that the variables Tax Ratio, Effectiveness of Regional Original Income, Regional Financial Dependence, Regional Independence, and Capital Expenditure are able to explain variations in Economic Growth by 42.53%. Meanwhile, the remaining 57.47% is explained by other factors outside the research model that are not included in this study.

Hypothesis Testing

1. F Test (Simultaneous Significance Test)

Table 6. F Test Results

F-statistic	4.198235
Prob(F-statistic)	0.000000

Source: Data Processed using Eviews9

Based on the test results using the Fixed Effect Model (FEM), the F-statistic value was obtained at 4.198235 and the Prob(F-statistic) value was 0.000000. The probability value is smaller than the significance level of 0.05 (0.000000 <0.05), so H_0 is rejected and H_1 is accepted. Thus, it can be concluded that the variables Tax Ratio, Effectiveness of Regional Original Income, Regional Financial Dependence, Regional Independence, and Capital Expenditure simultaneously influence Economic Growth in districts and cities in West Java Province for the period 2020–2024.

https://doi.org/10.61536/escalate.v4i02.737

2. **T-Test (Partial Test)**

Table 7. T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-37.65335	5.068341	-7.429127	0.0000
TR	8.131506	3.944005	2.061738	0.0418
EPAD	-0.024537	0.018946	-1.295097	0.1982
KKD	0.293316	0.068954	4.253767	0.0000
KD	0.765158	0.133437	5.734250	0.0000
BM	16.65972	4.013802	4.150608	0.0001

Source: Data Processed using Eviews9

Based on the results of the partial test (t-test) in Table 7, the following results were obtained:

A. The Effect of Tax Ratio on Economic Growth

Based on the test results, the Tax Ratio variable has a coefficient value of 8.131506 with a probability value of 0.0418. This probability value is smaller than 0.05 (0.0418 < 0.05), so H1 is accepted. Thus, the Tax Ratio has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the 2020–2024 period. These results indicate that the higher the region's ability to optimize regional tax revenue, the higher the regional economic growth tends to be.

B. The Influence of the Effectiveness of Regional Original Income on Economic Growth

Based on the test results, the variable of Regional Original Revenue Effectiveness has a coefficient value of -0.024537 with a probability value of 0.1982. This probability value is greater than 0.05 (0.1982 > 0.05), so H2 is rejected. Thus, the Effectiveness of Regional Original Revenue does not have a significant effect on Economic Growth in districts and cities in West Java Province for the period 2020–2024. These results indicate that the level of effectiveness in achieving PAD targets has not been able to provide a significant impact on regional economic growth.

C. The Influence of Regional Financial Dependence on Economic Growth

Based on the test results, the Regional Financial Dependence variable has a coefficient value of 0.293316 with a probability value of 0.0000. This probability value is smaller than 0.05 (0.0000 < 0.05), so H3 is accepted. Thus, Regional Financial Dependence has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the 2020–2024 period. These results indicate that transfer funds received by regions still play an important role in supporting regional development and economic activity.

D. The Influence of Regional Independence on Economic Growth

Based on the test results, the Regional Independence variable has a coefficient value of 0.765158 with a probability value of 0.0000. This probability value is smaller than 0.05 (0.0000 < 0.05), so H4 is accepted. Thus, Regional Independence has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the period 2020–2024. These results indicate that the higher the ability of a region to finance regional needs through its own revenue sources, the higher the tendency for regional economic growth.

E. The Impact of Capital Expenditure on Economic Growth

Based on the test results, the Capital Expenditure (BM) variable has a coefficient value of 16.65972 with a probability value of 0.0001. This probability value is smaller than 0.05 (0.0001 < 0.05), so H5 is accepted. Thus, Capital Expenditure has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the period 2020–2024. These results indicate that increasing the allocation of capital expenditure used for

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infrastructure development and the provision of public facilities can encourage increased economic activity, thus impacting regional economic growth.

Discussion of Research Results

The Effect of Tax Ratio on Economic Growth

Based on the partial test results (t-test), the Tax Ratio variable has a coefficient value of 8.131506 with a probability value of 0.0418. A probability value smaller than 0.05 indicates that the Tax Ratio has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the 2020–2024 period. These results indicate that the higher the local government's ability to optimize regional tax revenue, the higher the economic growth that can be achieved.

The results of this study align with the theory of fiscal decentralization, which explains that tax revenue is a crucial source of income in supporting regional development. Increased tax revenue can expand the fiscal capacity of local governments to finance infrastructure development, public services, and various economic development programs that can stimulate community economic activity (Oates, 1999).

The results of this study also support Ratnawati's (2023) study, which found that regional financial performance influences economic growth. Similar findings were also presented by Azizah and Bagas (2025), who stated that regional government fiscal capacity contributes to increasing regional economic growth.

H1: Tax Ratio has a positive effect on Economic Growth which can be accepted.

The Influence of the Effectiveness of Regional Original Income on Economic Growth

Based on the results of partial testing (t-test), the variable Effectiveness of Regional Original Income (EPAD) has a coefficient value of -0.024537 with a probability value of 0.1982. A probability value greater than 0.05 indicates that the Effectiveness of Regional Original Income does not have a significant effect on Economic Growth in districts and cities in West Java Province for the period 2020–2024. Thus, the hypothesis stating that the Effectiveness of Regional Original Income has an effect on Economic Growth is rejected.

Theoretically, high PAD effectiveness demonstrates the local government's ability to achieve established revenue targets. However, high PAD realization does not necessarily directly drive economic growth if the revenue generated is used primarily for routine expenditures rather than productive activities that create added economic value for the community.

The results of this study differ from those of Prasetyo and Handayani (2024), who found that PAD had a positive effect on regional economic growth. This difference in results is likely due to the study's use of the PAD effectiveness ratio, rather than the direct PAD amount. High PAD effectiveness does not necessarily reflect high PAD revenues, but only indicates the level of success in achieving established targets.

H2: The effectiveness of Regional Original Income has a negative effect on Economic Growth is rejected.

The Influence of Regional Financial Dependence on Economic Growth

Based on the partial test results (t-test), the Regional Financial Dependence variable has a coefficient value of 0.293316 with a probability value of 0.0000. These results indicate that Regional Financial Dependence has a positive and significant effect on Economic Growth. Thus, the third hypothesis stating that there is an effect of Regional Financial Dependence on Economic Growth is accepted, but the direction of the effect obtained differs from the initial theoretical assumption which tends to be negative.

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Theoretically, a high level of dependence on central government transfers is often considered unfavorable because it indicates low regional fiscal capacity. However, in the context of regencies and cities in West Java Province, central government transfers remain the primary source of funding for regional development, particularly infrastructure, public services, and social programs that can stimulate economic activity.

The results of this study align with those of Maryanti, Handra, and Yonnedi (2023), which found that regional financial capacity influences economic growth. These results indicate that fiscal transfers from the central government still play a significant role in supporting regional economic growth.

H3: Regional Financial Dependence has a negative effect on Economic Growth is rejected.

The Influence of Regional Independence on Economic Growth

Based on the results of partial testing (t-test), the Regional Independence variable has a coefficient value of 0.765158 with a probability value of 0.0000. These results indicate that Regional Independence has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the 2020–2024 period.

The results of this study align with the theory of fiscal decentralization, which explains that regions with strong fiscal capacity have greater flexibility in determining development policies according to their needs. The higher the level of regional independence, the greater the local government's ability to finance development using its own revenue sources, thereby stimulating increased economic activity.

The results of this study are in line with research (Anjani and Ayuningsasi, 2024) which states that fiscal independence has a positive influence on regional economic growth.

H4: Regional Independence has a positive effect on Economic Growth which can be accepted.

The Impact of Capital Expenditure on Economic Growth

Based on the partial test (t-test), the Capital Expenditure variable has a coefficient value of 16.65972 with a probability value of 0.0001. A probability value smaller than 0.05 indicates that Capital Expenditure has a positive and significant effect on Economic Growth in districts and cities in West Java Province for the 2020–2024 period.

These results align with economic growth theory, which explains that government investment through infrastructure development can increase the productivity of production factors, facilitate the distribution of goods and services, and attract private investment. Good infrastructure will create economic efficiency, thereby increasing regional economic growth (Barro, 1990).

The results of this study align with those of Holung, Kawung, and Tumangkeng (2021) and Apriana and Suryanto (2010), which show that government spending and capital expenditure contribute to regional economic growth. The greater the allocation of capital expenditure for the development of public assets and infrastructure, the greater the impact on increasing community economic activity.

H5: Capital Expenditure has a positive effect on Economic Growth which is acceptable.

Discussion of Simultaneous Effects

Based on the results of the F Test on the Fixed Effect Model (FEM) model, the F-statistic value was obtained at 4.198235 with a Prob(F-statistic) value of 0.000000. This probability value is smaller than the significance level of 0.05 (0.000000 <0.05), thus indicating

https://doi.org/10.61536/escalate.v4i02.737

that the Tax Ratio, Effectiveness of Regional Original Income, Regional Financial Dependence, Regional Independence, and Capital Expenditure simultaneously have a significant effect on Economic Growth in districts and cities in West Java Province for the period 2020–2024. These results indicate that changes in regional economic growth are not only influenced by one regional financial indicator, but are influenced by a combination of various aspects of regional fiscal performance together.

The results of this study align with the theory of fiscal decentralization, which states that the ability of local governments to manage regional financial resources is a crucial factor in supporting economic development. Regional tax revenue, the ability to realize Regional Original Income (ROI), the level of dependence on transfer funds, the level of fiscal independence, and the allocation of capital expenditures are interrelated components in supporting regional development implementation. The better the management of these indicators, the greater the ability of local governments to provide infrastructure, improve public services, and create an investment climate conducive to economic growth (Oates, 1999).

The results of this study are also supported by research by Ratnawati (2023), Maryanti, Handra, and Yonnedi (2023), and Azizah and Bagas (2025), which states that regional financial performance influences economic growth. These findings indicate that effective and efficient regional financial management can increase regional development capacity, thereby driving sustainable economic growth.

Conclusion

This study shows that the Tax Ratio, Regional Financial Dependence, Regional Independence, and Capital Expenditure have a positive and significant effect on Economic Growth in regencies and cities in West Java Province for the 2020–2024 period. Meanwhile, the Effectiveness of Regional Original Revenue (PAD) does not have a significant effect on Economic Growth. These results indicate that regional economic growth is related to the ability of local governments to optimize tax revenue, manage transfer funds, increase fiscal independence, and allocate capital expenditures for infrastructure development and public facilities. This study has limitations because it uses secondary data on 27 regencies and cities for the 2020–2024 period and only includes five regional financial performance indicators, so it does not describe all factors that can influence economic growth.

Practically, local governments need to optimize tax revenue through intensification and extensification, increase fiscal independence by optimizing local revenue (PAD) potential, and manage transfer funds effectively and efficiently by directing them to productive sectors. Capital expenditure allocations should also be focused on infrastructure development and public facilities that support community economic activity. For further research, the scope of the analysis can be expanded by including other variables such as investment, governance quality, unemployment rate, or the human development index to provide a more comprehensive explanation of the factors influencing regional economic growth.

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