
Analysis of Regional Financial Performance and Economic Growth: Cases in Regencies and Municipalities in Aceh Province

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Abstract

All information related to regional financial performance can be accessed by the public through officially published local government financial reports. This study aims to examine the effect of regional financial performance ratios on economic growth across regencies and cities in Aceh Province. Economic growth is measured by the growth rate of Gross Regional Domestic Product (GRDP), while regional financial performance is represented by the growth ratio of fiscal independence, the growth ratio of local revenue (PAD) effectiveness, the fiscal growth ratio, and the regional expenditure growth ratio. The population of this study includes all regencies and cities in Aceh Province, with a total sample of 23 local governments selected using a saturated sampling method, and an observation period of five years (2020–2024). Hypothesis testing is conducted using panel data regression analysis with a significance level of 0.05. The results show that the growth ratio of fiscal independence and the growth ratio of Region original income effectiveness have positive but insignificant effects on economic growth, while the fiscal growth ratio has a negative and significant effect on economic growth. In contrast, the regional expenditure growth ratio has a positive and significant effect on economic growth. These findings indicate that regional expenditure growth plays a more dominant role in driving economic growth than revenue-based fiscal indicators.

Keywords: regional financial performance, economic growth, panel data regression, regional original income, Aceh Province

1. Introduction

Economic growth is a crucial indicator for assessing the success of regional development because it reflects increased production of goods and services, which directly impacts public welfare. In the context of regional autonomy, local governments play a strategic role in driving economic growth through effective, efficient, transparent, and accountable public financial management. Regional financial management serves not only as a budget administration

instrument but also as a fiscal policy tool to create economic stimulus and accelerate regional development (Mardiasmo, 2018).

Aceh Province is an interesting region to study due to its unique fiscal characteristics compared to other provinces in Indonesia. Since the enactment of the Special Autonomy Fund (Otsus) in 2008, Aceh has received relatively substantial financial support, in addition to fiscal transfers from the central government, such as the General Allocation Fund, the Special Allocation Fund, and the Revenue Sharing Fund. Conceptually, the large allocation of these transfer funds aims to strengthen regional fiscal capacity, increase financial independence, and stimulate regional economic growth. However, empirically, Aceh's economic growth remains relatively low and fluctuates from year to year, even below the national average, despite the continued allocation of Special Autonomy Funds (Sodikin & Nopiana, 2021). This condition indicates that increased fiscal capacity has not been fully accompanied by optimal regional financial management.

Regional financial performance is a crucial indicator for assessing the ability of local governments to carry out their regional autonomy functions. Regional financial performance can be evaluated through various financial ratios, including the fiscal independence ratio, the effectiveness ratio of Regional Original Income, the fiscal growth ratio, and the regional expenditure growth ratio. Theoretically, the better the regional financial performance, the greater the regional government's ability to provide fiscal space to support productive development spending, thereby contributing to increased regional economic growth (Poyoh et al., 2017).

However, the reality on the ground shows that most districts/cities in Aceh Province still have a high level of dependence on transfer funds from the central government, while the contribution of local revenue to total regional revenue is relatively limited. This situation has the potential to limit the flexibility of regional fiscal policy and reduce the effectiveness of public spending in stimulating economic activity. Furthermore, fiscal growth that is not accompanied by adequate quality spending allocations has the potential to create inefficiencies and not have an optimal impact on regional economic growth.

Various empirical studies have shown that the influence of regional financial performance indicators on economic growth has not shown consistent results. Some studies find that fiscal independence, regional original income effectiveness, and regional spending growth have a positive effect on economic growth (Hanif, 2018; Harahap, 2020; Fernanda et al., 2023), while others show a negative or insignificant effect, particularly when fiscal growth is not accompanied by productive spending management (Ratnawati & Sari, 2023; Ihwandi & Khoirunurrofik, 2023). These discrepancies in findings indicate a research gap that requires further exploration, particularly in the context of districts/cities in Aceh Province. Therefore, this study aims to analyze the influence of regional financial performance ratios on economic growth in districts/cities in Aceh Province.

2. Literature Review and Hypotheses Development

Regional Independent Ratio

Regional economic growth reflects a region's ability to sustainably increase production activities and community welfare. Within the framework of fiscal decentralization, regional governments have the authority to manage their fiscal resources to encourage economic development in accordance with local characteristics and needs (Oates, 1972). Therefore, regional financial performance is a critical factor in determining the effectiveness of regional fiscal policies in supporting economic growth.

Regional independent ratio (RIR) is generally measured through various financial ratios derived from the Regional Revenue and Expenditure Budget. These ratios are used to assess the regional government's ability to generate revenue, manage expenditures, and reduce dependence on transfer funds from the central government. Theoretically, good regional financial performance will expand regional fiscal space, allowing the government to increase productive development spending and positively impact economic growth (Musgrave, 1959; Bahl & Linn, 1992).

Regional independence ratio has a positive effect on regional economic growth.

Regional independence ratio (RIR) reflects the increasing ability of regional governments to finance their expenditures through Regional Original Revenue without the dominance of central government transfers. Regions with a high level of fiscal independence tend to have greater policy flexibility in determining development priorities, thus potentially driving regional economic growth. Several empirical studies have found that fiscal independence has a positive effect on economic growth (Hanif, 2018; Oktrivina et al., 2020). However, several other studies have shown that increasing fiscal independence does not necessarily have a significant impact if the regional economic base remains weak. Based on this theoretical framework, the following hypothesis is proposed:

H₁: Regional independence ratio has a positive effect on regional economic growth.

Regional Financial Effectiveness Ratio and Regional Economic Growth

The regional original income effectiveness ratio growth indicates the ability of local governments to achieve established revenue targets. A high regional original income effectiveness level reflects the success of revenue collection strategies and strengthens regional fiscal capacity. Theoretically, increasing regional original income effectiveness will enhance local governments' ability to finance development and drive economic growth. Research by Harahap (2020) and Ratnawati & Sari (2023) found that regional original income effectiveness positively contributes to regional economic performance. Therefore, the following hypothesis is formulated:

H₂: Regional original income effectiveness ratio has a positive effect on economic growth.

The Role of Regional Fiscal Ratio Growth in Driving Economic Growth

The fiscal growth ratio illustrates the dynamics of regional revenue growth over time. High fiscal growth is theoretically expected to strengthen the fiscal capacity of regional governments to support economic development. However, fiscal growth that is not accompanied by quality management and productive expenditure allocation has the potential to create inefficiencies and even negatively impact economic growth. Several studies have found that fiscal growth does not always have a positive effect on regional economic growth (Mamuka et al., 2019). Based on this situation, the following hypothesis is proposed:

H₃: The fiscal growth ratio affects economic growth.

The Role of Regional Government Expenditure Ratio Growth in Driving Economic Growth

Regional spending is the primary instrument of regional government fiscal policy in driving economic activity. According to Keynesian theory, government spending has a multiplier effect that can increase aggregate demand and drive economic growth. Regional spending growth, particularly productive spending such as infrastructure, education, and health, is expected to accelerate regional economic growth. Research by Bisai et al. (2021) and Fernanda et al. (2023) showed that regional spending growth has a positive and significant effect on economic growth. Therefore, the following hypothesis is formulated:

H₄: The regional spending growth ratio has a positive effect on economic growth.

3. Method

Population and Sample

The population of this study comprised all 23 districts/cities in Aceh Province. The sampling technique used was saturated sampling with an observation period of 2020–2024, resulting in 115 panel data units. The research variables consisted of economic growth as the dependent variable, along with the fiscal independence ratio, the regional original income effectiveness ratio, the fiscal growth ratio, and the expenditure growth ratio as independent variables.

Research Variables

The variables in this study consisted of one dependent variable and four independent variables. The dependent variable was economic growth (REG), meanwhile, the independent variables included the Regional Independence Ratio (RIR), Regional Financial Effectiveness Ratio (RFER), fiscal growth ratio (FGR) and Regioneal Spending Ratio (FGR). Table 1 below shows the variables and their measurements:

Table 1: Variable and Measurement

No	Variable		Notation	Measurement
Dependent Variable:				
1	Regional Economic Growth		REG	$(PDRB_t - PDRB_{t-1})/PDRB_{t-1}$
Independent Variable:				
2	Regional Independence Ratio		RIR	Realization of PAD/Transfer Revenue
3	Regional Financial Effectiveness Ratio		RFER	Realization of PAD/Target of PAD
4	Fiscal Growth Ratio		FGR	$(\text{Realization of PAD}_t - \text{Realization of PAD}_{t-1}) / \text{Realization of PAD}_{t-1}$
5	Regional Spending Growth		RSG	$(RSt - RSt-1)/RSt-1$

Note:

PDRB = Gross Regional Domestic Product

PAD = Region Own-source Revenue

RS = Regional Spending

Data Analysis

The analytical tool used in this study was panel data regression analysis to examine the influence of the independent variables on the dependent variable. Hypothesis testing was conducted at a 5 percent significance level ($\alpha = 0.05$). The hypothesis is accepted if the probability value (p-value) is less than 0.05, and rejected if the probability value is greater than 0.05. The panel data regression model used in this study is formulated as follows:

$$REG_{it} = \alpha + \beta_1 RIR_{it} + \beta_2 RFER_{it} + \beta_3 FGR_{it} + \beta_4 RSG_{it} + \mu_{it}$$

4. Results and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis will show the mean, standard deviation, maximum, and minimum values of the data used in this study. The results of the descriptive analysis are as follows:

Table 2: Descriptive Statistics

Statistik	REG	RIR	RFER	FGR	RSG
Mean	6.206401	10.6635	4.113701	6.797332	-0.127256
Median	6.459602	6.983824	2.476826	3.597526	-2.219318
Maximum	26.13794	269.7164	390.8495	297.3707	25.44021
Minimum	-16.14212	-65.41445	-94.38997	-71.96216	-24.41857
Std. Dev.	5.243036	34.74397	43.69935	34.21197	9.672761
Observations	115	115	115	115	115

Source: Data processed

Based on Table 2 above, the Regional Economic Growth (REG) variable has an average value of 6.21, with a maximum value of 26.14 and a minimum of -16.14, indicating variation in economic growth across districts/cities in Aceh Province during the 2020–2024 period.

The Growth Independence Ratio (RIR) variable has an average value of 10.66, with a maximum value of 269.72 and a minimum of -65.41, indicating significant differences in the level of fiscal independence between regions. Furthermore, the Growth Effectiveness Ratio (RFER) shows an average value of 4.11, with a maximum value of 390.85 and a minimum of -94.39, reflecting significant variation in the effectiveness of PAD management across districts/cities.

Meanwhile, the Fiscal Growth Ratio (FGR) has an average value of 6.80, with a maximum value of 297.37 and a minimum of -71.96, indicating diverse regional fiscal capacity dynamics. The Expenditure Growth Ratio (RSG) had an average value of -0.13, with a maximum value of 25.44 and a minimum of -24.42, indicating that regional spending growth was generally relatively stable, despite fluctuations in some regions.

Overall, the descriptive statistics show differences in fiscal characteristics and economic growth across districts/cities in Aceh Province during the study period.

Hypothesis Testing Results

Based on 115 research observations, after data processing using EViews, the following hypothesis testing results were obtained:

Table 3: Hypotheses Result-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.337067	0.522293	12.13318	0.0000
PRK	0.044806	0.028662	1.563249	0.1209
PRE	0.047607	0.027672	1.720419	0.0882
PRF	-0.115466	0.045622	-2.53092	0.0128
PRB	0.15268	0.062084	2.459226	0.0155
R-squared	0.072923	Mean dependent var		6.206401
Adjusted R-squared	0.039211	S.D. dependent var		5.243036
S.E. of regression	5.139215	Sum squared resid		2905.269
F-statistic	2.163124	Durbin-Watson stat		1.651165
Prob(F-statistic)	0.077853			

Source: Data processed

The Regional Independence Ratio on Economic Growth

Estimation results using the Random Effects Model (REM) indicate that the growth of the Fiscal Independence Ratio had a positive but insignificant effect on the economic growth of districts/cities in Aceh Province during the 2020–2024 period. This finding indicates that increasing regional capacity to finance expenditures through Regional independent has not yet significantly impacted GRDP growth.

This condition reflects that, despite the positive direction of the relationship, regional fiscal capacity in Aceh remains limited, and dependence on central transfer funds such as the General Allocation Fund, Special Allocation Fund, and Regional Revenue remains relatively high. Therefore, an increase in the fiscal independence ratio does not fully reflect regional economic independence.

This study's findings align with the findings of Sari & Wijaya (2024), Verawaty et al. (2017), Afif & Ciptawaty (2020), and Nisak et al. (2024), who found that the fiscal independence ratio had no significant effect on economic growth. These findings confirm that increasing Regional Original Revenue without being accompanied by productive spending has not been able to drive sustainable regional economic growth.

The Regional financial Effectiveness Ratio and Economic Growth

The REM estimation results indicate that the growth in the Regional Financial Effectiveness Ratio (PRE) has a positive but insignificant effect at the 5 percent level, although it is significant at the 10 percent level. This finding indicates that increased regional original income realization effectiveness tends to be followed by increased economic growth, but the strength of the effect is still relatively weak.

This indicates that contribution of regional original income to total regional revenue in Aceh Province is still limited and has not yet become a primary source of development financing.

Furthermore, increased regional original income effectiveness has not always been accompanied by productive spending allocations, resulting in a less than optimal impact on economic growth. This finding aligns with research by Hutasuhut et al. (2025), Malau et al. (2025), and Nisak et al. (2024), which states that regional original income effectiveness does not significantly impact regional economic growth unless supported by quality spending and a strong economic structure.

The Effect of Fiscal Ratio Growth on Economic Growth

Based on the REM estimation results, the Fiscal Ratio Growth (PRF) has a negative and significant effect on economic growth in districts/cities in Aceh Province. This finding indicates that regional fiscal growth does not reflect growth derived from productive economic activity, but is instead driven more by administrative revenue and transfers.

Furthermore, increased fiscal revenue that is not accompanied by allocations for productive spending has the potential to depress economic activity, especially if the additional revenue is primarily used for routine spending. Therefore, high fiscal growth is not always an indicator of successful regional economic development.

This study's findings align with those of Mamuka et al. (2019), who found that Regional Original Revenue negatively impacts economic growth, but differs from those of Andiani et al. (2022). This difference can be explained by variations in economic structure and the effectiveness of budget utilization across regions.

The Effect of Expenditure Growth on Economic Growth

The analysis shows that Regional Expenditure Growth has a positive and significant effect on economic growth in districts/cities in Aceh Province. This finding indicates that increased regional government spending, particularly productive spending, can drive economic growth through increased aggregate demand and a multiplier effect.

These results align with Keynesian theory and are supported by research by Bisai et al. (2021), Fitri & Putri (2019), and Widiastuti & Sutrischastini (2022), which states that regional government spending plays a significant role in increasing GRDP. Thus, regional spending can be a key fiscal instrument in driving sustainable regional economic growth.

5. Conclusions and Recommendations

Based on the analysis of the influence of regional financial performance ratios on economic growth in districts/cities in Aceh Province during the 2020–2024 period, it can be concluded that not all regional financial ratios significantly influence economic growth. The fiscal independence growth ratio and the PAD effectiveness growth ratio have a positive but not yet significant influence, indicating that increasing PAD has not yet fully driven regional economic growth.

Conversely, the fiscal growth ratio has a negative and significant effect on economic growth, indicating that increased fiscal revenues that are not accompanied by productive spending management have the potential to suppress economic activity. Meanwhile, the regional spending growth ratio has been shown to have a positive and significant influence, making it the most consistent factor in driving economic growth in districts/cities in Aceh Province.

Overall, the results of this study confirm that the success of regional financial management is determined not only by the amount of revenue, but primarily by the quality and direction of spending allocations, which are oriented towards productive sectors.

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