Analysis of Regional Financial Performance on Capital Expenditure Allocation and Economic Growth in Regencies and Municipalities of Central Java Province

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Abstract

This study aims to analyze the influence of regional financial performance through the regional financial independence ratio, regional financial effectiveness ratio, and regional financial efficiency ratio on capital expenditure allocation and economic growth in Central Java Province during the 2021–2024 period. Furthermore, this study also examines the effect of capital expenditure allocation on economic growth. This study uses secondary data in the form of budget realization reports and Gross Regional Domestic Product (GRDP) data from 35 regencies/cities in Central Java Province. The analytical method used is panel data regression. The results show that the regional financial independence ratio and regional financial effectiveness ratio have a positive and significant effect on capital expenditure allocation, while the regional financial efficiency ratio has a negative but significant effect on capital expenditure allocation. The independence ratio and effectiveness ratio have a positive but insignificant effect on economic growth, while the efficiency ratio has a negative but significant effect on economic growth. The test results also prove that capital expenditure allocation has a positive and significant effect on economic growth in Central Java Province.

1. Introduction

Financial performance measurement is used to facilitate public management in assessing strategic achievement. Irnawati et al. (2023) state that the financial performance of local governments is crucial for both local governments and external parties. Financial performance is one measure that can be used to ensure a region's ability to properly implement financial regulations to maintain desired services. Higher assessments are a requirement for external parties to decide to invest in the region.

Economic growth is a crucial indicator for measuring the level of development achieved by a country or region. Sustainable economic growth reflects increased production capacity and public welfare. One factor driving economic growth is fiscal policy, particularly the allocation of capital expenditures by the government. Pasaribu & Nur (2022) state that a country's well-being can be evaluated through economic growth indicators, such as increased national income, per capita income, reduced unemployment, and poverty reduction. A district is an administrative region within a country. The government needs to focus on increasing economic growth at the regional level. Several factors influence economic growth, including revenue, expenditure, and financing. To boost economic growth, development supported by increased revenue is needed. Capital expenditure is government spending on investments in infrastructure development, fixed asset purchases, and other long-term expenditures. Capital expenditure is expected to have a positive impact on economic growth by increasing productivity and efficiency. Appropriate and effective allocation of capital expenditure is crucial because it can encourage infrastructure development, which forms the foundation for long-term economic growth. Asrudi et al. (2020) state that the capital expenditure ratio reflects the proportion of the regional budget allocated to capital expenditure. Capital expenditure, goods and services expenditure, are components of government spending expected to positively impact a region's economic growth.

Regional financial management by local governments in managing their financial resources can be manifested in regional financial performance, which is used to improve development, public services, and public welfare. Buntu (2023) states that financial performance reflects financial conditions, namely a measure of success or achievement in maintaining financial health and stability by applying sound financial management principles over a specific period. Numerous financial ratios can be used to assess regional financial performance, including the regional financial independence ratio, the regional financial effectiveness ratio, and the regional financial efficiency ratio.

Various previous studies have shown that financial performance significantly influences capital expenditure allocation and economic growth, although the results are inconsistent. Siswoyo & Soleh (2020) stated that the independence ratio has a positive and significant influence on capital expenditure allocation. However, this statement is inconsistent with Muzaki & Mega (2022), who stated that the independence ratio has no influence on capital expenditure. Ayu et al. (2019) stated that the effectiveness ratio has a positive effect on capital expenditure. However, this is inconsistent with Fernanda et al. (2023), who stated that the effectiveness ratio has a negative influence on capital expenditure allocation. Auliya & Sjarief (2024) stated that the efficiency ratio has a positive and significant contribution to capital expenditure. However, this contradicts the research of Satria (2020), which stated that the financial efficiency ratio has no effect on capital expenditure allocation.

Research on the influence of financial performance on economic growth also varies in its results. Woestho et al. (2020) stated that the independence ratio has a significant positive effect on a region's economic growth. Katit and Sherly (2016) stated that the independence ratio has no effect on economic growth. Putra (2024) stated that the PAD effectiveness ratio has a positive

effect on economic growth, meaning that the region is able to realize the planned PAD compared to the target set based on the region's real potential. Luthvia et al. (2023) stated that the effectiveness ratio has no effect on economic growth. Kumpangpune et al. (2019) stated that financial performance as seen from the efficiency ratio has a positive and significant effect on economic growth. However, this contradicts research conducted by Amalia & Fajar (2022) which states that the efficiency ratio has a significant effect on regional economic growth. Sabrina et al. (2024) stated that capital expenditure allocation has a positive and significant effect on economic growth, where an increase in capital expenditure will directly affect GRDP. However, this contradicts research by Fitri & Sasqia (2019) which states that capital expenditure allocation does not have a significant influence on economic growth.

2. Literature Review and Hypotheses Development

Regional Financial Performance

Financial performance is used as a tool to measure an organization's current development and growth potential. While many indicators estimate financial performance, selecting the appropriate ratio depends on the characteristics of the object being studied and the objectives of the study (Kim et al., 2021). This financial evaluation focuses not only on the local government's ability to allocate and utilize the budget, but also on whether the allocation aligns with pre-established plans and adheres to the principles of effectiveness, efficiency, and affordability in budget allocation (Susanto, 2019). Ratios describe the relationship or proportion between a specific amount and another through the use of analytical tools called ratios. These ratios can provide an overview of the quality of the financial situation or condition (Lasupu et al., 2021).

Economic Growth

Economic growth can be defined as the ability of economic activity to generate increased public income over a specific period. This activity involves production factors that drive expenditure and generate a reciprocal flow of income to the public. Income, spending, and financing are factors that influence economic growth (Pasaribu & Nur, 2022). High economic growth is the hope of all countries to improve the welfare of their populations. Economic growth measures the progress of an economy from one period to the next. Increases in the quantity and quality of production factors will result in an increased ability of a region to produce goods and services from one period to the next. A country can be said to be experiencing economic growth if there is an increase in national income and output. To achieve the goal of improving the standard of living of the people, governments, in general, in national and regional economic development, have efforts and policies to improve economic relations from the primary sector to the secondary and tertiary sectors (Sabrina et al., 2024).

Regional Financial Independence Ratio

The regional financial independence ratio indicates the local government's ability to finance government affairs, production, and assistance provided to the community by routinely paying taxes and levies to help increase regional resources. Regional financial independence reflects the

ability of local governments to finance activities, provide guidance, and provide government assistance to communities that actively pay taxes and levies, which are a source of regional revenue. The regional financial independence ratio illustrates the extent of community involvement in regional development (Shalehah et al., 2022).

The regional financial independence variable influences capital expenditures. This indicates that the amount of money spent on employees influences regional expenditures, which in turn impacts regional financial stability. This can hinder the pace of regional development, making it more difficult to realize aspirations for greater regional independence (Nuraeni et al., 2024). The regional financial independence ratio influences economic growth. Therefore, the level of regional financial independence, whether high or low, also influences regional economic growth. The level of regional financial independence is largely determined by the size of Regional Original Revenue (PAD). In this case, PAD is a key component reflecting a region's independence (Ratnawati and Rida, 2023).

H_1: The regional financial independence ratio has a positive effect on capital expenditure allocation.

H_2: The regional financial independence ratio has a positive effect on economic growth.

Regional Financial Effectiveness Ratio

The effectiveness ratio represents the government's ability to realize all plans compared to targets aligned with regional potential (Muzaki & Mega, 2022). The effectiveness ratio illustrates how actively the regional government has consistently achieved regional revenue targets, compared to targets set based on actual regional potential. In its measurement, a higher effectiveness ratio indicates a stronger regional strength. A region's ability to carry out its duties meets the criteria for effectiveness if it achieves a minimum of 100%.

A higher regional capacity is indicated by a higher effectiveness ratio (Shalehah et al., 2022). The greater the amount of Locally-Owned Revenue (PAD), the more likely the region is to meet its spending needs without relying on the central government. The higher the realized revenue compared to the target, the more effective the regional financial management is (Pangestu, 2022). A high regional government financial effectiveness ratio indicates success in realizing Regional Original Revenue (PAD), which is expected to accelerate regional development and drive economic growth (Nurulita et al., 2018).

H_3: The regional financial effectiveness ratio has a positive effect on capital expenditure allocation.

H_4: The regional financial effectiveness ratio has a positive effect on economic growth.

Regional Financial Efficiency Ratio

The regional financial efficiency ratio is a ratio that shows the comparison between the amount of expenditure incurred to generate revenue and the amount of revenue received. Amalia & Fajar (2022) state that the efficiency ratio is used as an indicator to determine the level of regional welfare. The following is the formula for calculating the regional financial efficiency ratio.

The political commitment of regional governments to set a high proportion of capital expenditures encourages the maximum use of regional resources. However, because capital expenditures require a large budget, this situation has the potential to reduce the scope for budget savings. Conversely, policies oriented towards budget savings can result in a decrease in capital expenditure allocations (Vegasari, 2011). Excessive efficiency can indicate that the budget has not been optimally utilized, which means that regional development programs and economic activities are not running effectively (Halim, 2012). In some cases, efficiency can actually become an obstacle if not balanced with careful planning. For example, misdirected budget cuts can hamper strategic programs that actually have a positive impact on public welfare (Darmawan et al., 2025).

H_5: The regional financial efficiency ratio negatively impacts capital expenditure allocation.
H_6: The regional financial efficiency ratio negatively impacts economic growth.

Capital Expenditure Allocation

Capital expenditure allocation is based on regional needs for facilities and infrastructure, both for government and public facilities. The budget period for the procurement of local government fixed assets is based on budget priorities and public services that have long-term impacts (Kelly & Rivernbark, 2011). In regional budgeting practices, the allocation of resources into expenditure estimates is a process fraught with political interests (Chang, 2009). Capital expenditure budgets are intended to meet public needs for public facilities provided by local governments. The involvement of legislative institutions with their political interests in the budgeting process often results in distorted capital expenditure allocations and is ineffective in resolving community problems (Keefer & Khemani, 2003). Capital expenditure has a very visible, direct impact because it is one of the local governments' efforts to boost their economic growth. This indicates that one of the functions of the government budget as an economic stimulus is functioning (Fernanda et al., 2023).

H_7: Capital expenditure allocation has a positive effect on economic growth.

3. Method

Population and Sample

The population in this study was all 35 regencies/cities in Central Java Province, with an observation period of four years, from 2021 to 2024. The sample was obtained using a saturated

sampling technique (total sampling). The total number of observations was 140 (35 regencies/cities x four years).

Research Variables

This study includes two dependent variables: capital expenditure allocation and economic growth. Additionally, the independent variables include the regional financial independence ratio (RFI), the regional financial effectiveness ratio (RFT), and the regional financial efficiency ratio (RFC). Table 1 shows the variables and their respective measurements:

Table 1: Variable and Measurement

Variable	Measurement
Dependent Variable:	
Capital Expenditure Allocation (CEA)	(Capita Exp/Total Regional Exp) x 100%
Economic Growth (EGR)	[(DRDPt – GRDPt-1)/GRDPt-1] x 100%
Independent Variable:	
Regional Financial Independence Ratio (RFI)	(ROI/Total Transfer Revenue) x 100%
Regional Financial Effectiveness Ratio (RFT)	(ROI/Realization/ROI Target) x 100%
Regional Financial Efficiency Ratio (RFC)	(Exp Realization/Total Income) x 100%

Note: GRDP = Gross Regional Domestic Product
ROI = Regional Original Income

Data Analysis

The data analysis used in this study was panel data regression analysis using the Eviews 12 application program. The analytical model used to analyze the effect of independent variables on the dependent variable was a multiple regression model, combining time series and cross-section data. The general panel data regression model used in this study consists of two models, as shown in the following equation:

Model 1: Financial Performance and Capital Expenditure Allocation
$CEA_{it} = \alpha_1 + \beta_1 RFI_{it} + \beta_2 RFT_{it} + \beta_3 RFC_{it} + \mu_{it}$
Model 2: Financial performance and economic growth
$EGR_{it} = \alpha_1 + \beta_1 RFI_{it} + \beta_2 RFT_{it} + \beta_3 RFC_{it} + \mu_{it}$

4. Results and Discussion

Descriptive Statistics

Descriptive statistical analysis serves to provide information about the collected data to describe research variables. Descriptive statistical analysis consists of several components, such as sample

size, lowest value, highest value, mean (average), and standard deviation. Table 2 shows the descriptive statistics for each variable:

Table 2: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
RFI	140	12,52	112,61	28,62	16,69
RFT	140	80,84	173,64	112,57	16,39
RFC	140	47,12	178,08	102,89	20,44
ECM	140	4,82	22,94	12,60	3,25
EGR	140	-1,70	14,02	6,86	2,11

Source: Data processed (Eviews 12, 2025)

Based on Table 2 above, the regional financial independence ratio (RFI) variable has a minimum value of 12.52. While the maximum value is 112.61. The mean value of the RFT variable is 28.62 and the standard deviation value is 16.69. The regional financial effectiveness ratio (RFC) variable has a minimum value of 80.84 and a maximum value of 173.64. The RFT variable shows that the average (mean) value of regencies/cities in Central Java Province in 2021-2024 is 112.57. The standard deviation value of the RFT variable is 16.39. The regional financial efficiency ratio (RFC) variable has a minimum value of 47.12 and a maximum value of 178.08. The RFC variable shows a mean value of 102.89. The standard deviation value of this variable is 20.44. The capital expenditure allocation (CEA) variable has a minimum value of 4.82 and a maximum value of 22.94. The capital expenditure allocation shows a mean value of 12.60. The standard deviation for the capital expenditure allocation is 3.25. The economic growth (EGR) variable has a minimum value of -1.70 and a maximum value of 14.02. The mean value for economic growth is 6.86. The standard deviation for this variable is 2.11.

Regression Model Selection

Panel data regression analysis in this study serves to further investigate the relationships between the studied variables using the collected data. Regression model estimation can be performed using three approaches: the common effects model, the fixed effects model, and the random effects model. The summary results of model selection for panel data regression are shown in Table 3 below:

Table 3: Result of Chow-test and LM-test

Type of Test	Model 1 Model 2	
	Summary of Test Results	
Chow-test	Cross section F 0,355	Cross section F 0,088
Hausman-test	Breusch Pagan 0,833	Breusch Pagan 0,964

Source: Data processed (Eviews 12, 2025)

Based on the Chow test, the cross-section F-probability value for Model 1 is 0.355 > 0.05, and for Model 2, the cross-section F-value is 0.08 > 0.05. The selected regression model is the common effects model. Based on these results, a Hausman test is not necessary for Models 1 and 2, as the selected common effects model allows for the Lagrange multiplier test.

The Lagrange multiplier test results indicate that the Breusch-Pagan probability value for Model 1 is 0.833 > 0.05. The Breusch-Pagan probability value for Model 2 is 0.964 > 0.05. The selected model for Models 1 and 2 is the common effects model. Because the common effects model was selected, this model is the best model used in this study.

Hypothesis Test Results

Hypothesis testing aims to assess the appropriateness of the regression model used to explain the relationship between the independent and dependent variables. The t-test is used to determine the extent to which each independent variable partially (individually) influences the dependent variable, assuming all other variables remain constant. The decision-making criteria are: if the p-value is <0.05, then H_0 is rejected, indicating that the independent variable has a significant effect on the dependent variable. If the p-value is ≥0.05, then H_0 is accepted, indicating that the independent variable does not significantly influence the dependent variable. The results of the hypothesis test can be seen in Table 4:

Table 4: Hypotheses Test Result with Common Effect Model

Variable	Model 1: CEA		Model 2: EGR	
	Coefficient	Prob.	Coefficient	Prob.
C	13,860	0,000	7,715	0,000
RFI	0,067	0,000	0,015	0.132
RFT	0,033	0,018	0,001	0.472
RFC	-0,067	0,000	-0.036	0.001
CEA	-	-	0,171	0.000

Source: Data processed (Eviews 12, 2025)

Regional Financial Independence Ratio and Capital Expenditure Allocation

Based on data analysis using a t-test, a positive coefficient value of 0.06 was found, with a probability value of $0.000 < 0.05$. This indicates that the regional financial independence ratio has a positive and significant effect on capital expenditure allocation in Central Java Province from 2021 to 2024. This finding aligns with previous research by Defitri (2020), Wibisono et al. (2021), and Mulyani & Halkadri (2023), which found that the independence ratio has a significant positive effect on capital expenditure allocation. The higher the level of independence of a region, the greater its ability to finance expenditures through local revenue, resulting in lower dependence on central transfers. This provides local governments with flexibility in allocating regional expenditures, particularly capital expenditures oriented toward long-term investment. Furthermore, an increase in the regional financial independence ratio also reflects improved and sustainable financial management performance. Saruc & Isa (2008) stated that strong public participation in paying taxes and levies should be balanced by the provision of infrastructure or fixed assets by local governments to improve community welfare, realized through the allocation of capital expenditures.

Regional Financial Effectiveness Ratio and Capital Expenditure Allocation

The second hypothesis test yielded a positive coefficient value of 0.033 and a probability of $0.018 < 0.05$. Based on these results, it can be concluded that the regional financial effectiveness ratio has a positive and significant influence on capital expenditure allocation. This study's findings align with those of Jatitmas (2015), Setiawina (2015), and Rahmadini et al. (2024), which found that the regional financial effectiveness ratio has a significant positive effect on capital expenditure allocation.

The higher the regional financial effectiveness ratio, the better the local government's performance in managing and optimizing its revenue sources. This reflects greater fiscal space and certainty of funding availability, allowing local governments to be more confident and able to allocate their budgets to productive expenditures, such as capital expenditures. When local income (ROI) meets or exceeds targets, local governments have a more secure and stable source of funding. Strong revenue allows regions not only to cover routine expenditures but also to allocate more for long-term investment in the form of capital expenditures. Governments that achieve their ROI targets demonstrate relatively good governance and planning. This pattern is generally followed by a preference for spending that directly impacts public services and economic growth, namely capital expenditures. Bolen (2019) states that a high effectiveness ratio indicates a region's ability to tap its own economic potential. Regions that are more fiscally independent tend to have greater flexibility in allocating their budgets to productive spending without over-reliance on central transfers.

Regional Financial Efficiency Ratio and Capital Expenditure Allocation

Based on the t-test data analysis, the coefficient value of the regional financial efficiency ratio variable is negative at -0.0675 with a probability of $0.000 < 0.05$. Therefore, it can be concluded that the regional financial efficiency ratio has a negative and significant effect on capital

expenditure allocation. This finding aligns with research conducted by Ardhini & Handayani (2011), Delima et al. (2016), and Novita & Nunung (2020), which found that the regional financial efficiency ratio has a negative and significant effect on capital expenditure allocation.

A negative coefficient on the efficiency ratio indicates that a lower efficiency ratio (more efficient regional financial management) is accompanied by a decrease in capital expenditure allocation. This is because efforts to increase budget efficiency are often implemented through spending restrictions and spending controls, particularly on large, long-term expenditures such as capital expenditures. Local governments tend to prioritize savings on infrastructure projects or fixed asset procurement to maintain financial efficiency.

These results suggest that when a region is relatively inefficient, local governments are encouraged to increase investment through capital expenditures to improve service quality and future financial performance. Conversely, regions that are already efficient tend to restrain capital expenditure growth, preventing aggressive increases in capital expenditure allocations. Ardhini & Handayani (2011) stated that a high efficiency ratio indicates inefficient use of regional finances, as realized expenditures exceed revenues. Hanifah & Jaka (2024) stated that efficiency pressures can reduce fiscal space for capital expenditures because revenues and expenditures are already increasingly constrained by routine burdens.

Regional Financial Independence Ratio and Economic Growth

The t-test results in this study yielded a positive coefficient of 0.015 with a probability of 0.132 > 0.05. Therefore, it can be concluded that the regional financial independence ratio has a positive but insignificant effect on economic growth. This research aligns with research conducted by Hirbasari (2020), Jayanti et al. (2023), and Nisak et al. (2024) stated that the independence ratio has a positive but insignificant effect on economic growth.

The results of this study indicate that although an increase in the regional financial independence ratio indicates the ability of local governments to finance government activities from local revenue, this condition does not necessarily directly drive economic growth in Central Java Province. This may occur because funds sourced from Regional Original income (ROI) are primarily used for routine expenditures and government operations, resulting in a relatively low impact on productive economic activity. Another factor that could influence this is the COVID-19 pandemic, which affected trends in 2021, which is considered a recovery year.

Several factors can contribute to the insignificant effect of the independence ratio. First, misuse of funds or unproductive investments. Second, limitations in infrastructure and human resources hinder local governments' ability to implement optimal economic policies. Furthermore, dependence on the central government for fund allocation and fiscal policy limits regional independence. Finally, external factors such as the pandemic, global economic conditions, or changes in government regulations (Nisak et al., 2024) can also contribute. A low regional financial independence ratio can hamper economic growth. Excessive dependence on the center makes regions vulnerable to fluctuations in national fiscal policy and global economic changes (Ferani, 2021).

Regional Financial Effectiveness Ratio and Economic Growth

Based on the t-test results conducted in this study, the coefficient value for the regional financial effectiveness ratio variable is positive at 0.001 with a probability of 0.472. Therefore, it can be concluded that the regional financial effectiveness ratio has a positive but insignificant effect on economic growth. This aligns with research conducted by Nisak et al. (2024), Aghnia et al. (2025), and Malau et al. (2025), which stated that the effectiveness ratio has a positive but insignificant effect on economic growth.

Descriptively, effectiveness in Central Java Province is considered effective. This indicates that most local governments are quite effective in collecting and managing regional original income (ROI) sources. However, this effectiveness is insufficient to drive economic growth. The continued high dependence on the central government and the lack of diversity in other funding sources mean that economic growth is not significantly affected by variations in effectiveness. Therefore, increases in this ratio have a very small impact. Various studies have shown that ROI is predominantly allocated to routine expenditures, thus tending to have a less significant impact on economic growth. Furthermore, there are post-pandemic years, which are years of global economic recovery. Nisak et al. (2025) stated that one cause is the lack of diversification of regional revenue sources. Many regions remain dependent on certain sectors without considering others. When PAD is impacted, it results in regional income instability and has the potential to hamper economic growth. Malau et al. (2025) stated that the insignificant cause is because the ROI utilization has not been optimally directed to productive sectors that directly drive economic activity, such as infrastructure development, support for MSMEs, tourism, and the agricultural sector.

Regional Financial Efficiency Ratio and Economic Growth

Based on the analysis of t-test data in the study, the coefficient value is negative at -0.036 with a probability of 0.001 < 0.05. It can be concluded that the regional financial efficiency ratio has a negative and significant effect on economic growth. These results align with research conducted by Marsudi et al. (2019), Panjaitan (2021), and Luthvia et al. (2023) stated that the regional financial efficiency ratio has a negative and significant effect on economic growth.

A negative coefficient value indicates that a lower (more efficient) ratio is followed by a decline in economic growth, and vice versa. When a region becomes more efficient, it means that funds are being used suboptimally, resulting in no development that leads to economic activity. Furthermore, a high level of efficiency can indicate that the local government is more focused on cost control than on economic expansion. In practice, regions still in the developing stage require relatively large fiscal expenditures to build infrastructure and improve the quality of public services. Therefore, when efficiency is achieved through reduced development spending, the positive impact on economic growth is suboptimal and can even decrease it. Haryati et al. (2025) stated that many regions suppress capital spending and development programs to make the efficiency ratio appear positive, even though it is capital spending that has been proven to drive production capacity and economic growth. When regions focus too much on saving, funds are

not effectively utilized to boost GRDP, resulting in weakened growth despite the ratio appearing efficient.

Capital Expenditure Allocation and Economic Growth

The t-test results in this study showed a coefficient value of 0.171 for capital expenditure allocation, with a probability of $0.000 < 0.05$. Based on these results, it can be concluded that capital expenditure allocation has a positive and significant effect on economic growth. This finding aligns with research conducted by Kirana & Susilo (2024), Neldawaty & Suherman (2024), and Sabrina et al. (2024), which found that capital expenditure allocation has a positive and significant effect on economic growth.

The results of this study indicate that the higher the capital expenditure allocation, the higher the productivity, which impacts regional economic growth. This is because capital expenditure, in the form of infrastructure, clearly impacts economic growth and employment. Capital expenditure must be supported by appropriate government policies to enhance its impact. As explained in the Solow-Swan neoclassical growth theory, economic growth depends on factors such as increases in the supply of production factors (population, labor, and capital accumulation) and technological progress. Etika et al. (2022) stated that one of the factors supporting economic growth is the availability of adequate infrastructure. Therefore, many regions are increasing infrastructure development in their regions. Saragih (2003) stated that if local governments allocate a larger budget for capital expenditures or development than for routine expenditures, then regional budget expansion policies will boost regional economic growth.

5. Conclusions and Recommendations

Based on the analysis and discussion, it can be concluded that regional financial performance plays a significant role in determining capital expenditure allocation in Central Java Province. The regional financial independence ratio has a positive and significant effect on capital expenditure allocation, indicating that the greater a region's ability to independently finance its fiscal needs, the greater the ease with which the local government can allocate its budget for capital expenditure. The regional financial effectiveness ratio also has a positive and significant effect on capital expenditure allocation, indicating that the local government's ability to realize revenue targets contributes to increased capital expenditure. Meanwhile, the regional financial efficiency ratio has a negative and significant effect on capital expenditure allocation. Furthermore, the research results show that the regional financial independence and effectiveness ratios have a positive but insignificant effect on economic growth. The regional financial efficiency ratio showed a negative and significant effect on economic growth. Furthermore, capital expenditure allocation was shown to have a positive and significant effect on economic growth, indicating that capital expenditure directed at infrastructure development and productive assets can increase productivity and public welfare in Central Java Province.

The results of this study are expected to be used as considerations in formulating regional financial management policies, particularly in improving the financial independence, effectiveness, and efficiency ratios. Regional governments need to continue optimizing Regional Original Revenue (PAD) through intensification and extension of revenue sources to reduce dependence on transfer funds and sustainably increase capital expenditure allocations.

For future research, it is recommended to expand the research variables by including other factors such as transfer funds, SiLPA (Regional Budget Allocation Plan), operational expenditures, expenditure quality, and governance indicators to provide a more comprehensive analysis. Future research could also use a longer time period or compare between provinces to gain a broader picture of the relationship between regional financial performance, capital expenditure, and economic growth. Furthermore, the use of other analytical methods, such as mediation or moderation approaches, could be considered to enrich the research findings.

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