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THE INFLUENCE OF INDEPENDENCE RATIO AND EFFECTIVENESS RATIO ON ECONOMIC GROWTH THROUGH CAPITAL EXPENDITURE

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ABSTRACT

Indonesia's economic growth over the last few years has experienced quite significant fluctuations. The large economic growth rate cannot be separated from the large influence of regional income for each province in Indonesia, one of which is Bali Province. This research aims to determine the effect of the independence ratio and effectiveness ratio on economic growth through capital expenditure in districts/cities in Bali Province for the 2018-2022 period. This research method uses an associative type of quantitative research. The data in this research is secondary data, consisting of data on economic growth, independence ratio, effectiveness ratio, and capital expenditure with the population of all Regencies/Cities of Bali Province. The data analysis technique in this research uses panel data regression using EViews version 10.0 because EViews has special capabilities for processing panel data, namely data that combines cross-section and time series data. The research results show thatthe independence ratio has a significant positive effect on capital expenditure, the effectiveness ratio has a significant negative effect on capital expenditure, the independence ratio has an insignificant negative effect on economic growth, the effectiveness ratio and capital expenditure have a significant positive effect on economic growth, while capital expenditure is unable to mediate the effect of the independence ratio and ratio of effectiveness to economic growth. This research contributes to local governments in districts/cities in Bali Province in designing effective and sustainable economic development policies.

Keywords: Independence Ratio, Effectiveness Ratio, Capital Expenditure, Economic Growth

INTRODUCTION

Regional economic growth is an important aspect in supporting national economic growth (Azhari *et al*., 2020). Changes in Gross Regional Domestic Product (GRDP) will affect Gross Domestic Product (GDP). The economic health of the regions that make up a country can have a positive or negative impact on the level of national economic growth, reflecting the concept of interconnection between sectors and regions within the framework of growth theory. Economic growth theory focuses on understanding the processes and factors that enable the economic production of a country or region to grow over time. An increase in local economic production and activity can be reflected in the growth of PRDB which measures the total value of

goods and services produced in the region. High regional economic growth has an impact on increasing per capita income of the population, so that the level of consumption and productivity of the population increases (Hardiningsih *et al*., 2020).

Bali Province has a strategic position and role in national economic development. Bali, which is known for its tourist attraction, relies heavily on visits from both foreign and domestic tourists to run its economy. Reporting from the article Kominfo (2022) The tourism sector is still the locomotive for Bali's economic growth. Tourism has become one of the main drivers of Bali's economic growth and contributes significantly to Indonesia's Gross Domestic Product (GDP). This is in line with the fast track growth theory which emphasizes rapid economic growth as a result of large investments in certain sectors.

This research was conducted at district/city regional governments in Bali Province because Bali is still the country's largest foreign exchange contributor to Indonesia, especially in the tourism sector, so Bali's economic growth is something that needs to be paid attention to and improved. Based on data obtained from the Central Statistics Agency (BPS) of Bali Province, it can be seen that the economic growth of Regencies/Cities in Bali Province from 2018 to 2022 is in the following table.

Table 1.Regency/City GRDP/Economic Growth in Bali Province

Regency/City	GDP or Regency/City Economic Growth in Bali Province (Percent)				
	2018	**2019**	**2020**	**2021**	**2022**
Regency. Jembrana	5.59	5.56	-4.98	-0.65	2.98
Regency. Tabanan	5.71	5.58	-6.17	-1.98	2.94
Regency. Badung	6.73	5.81	-16.55	-6.74	9.97
Regency. Gianyar	6.01	5.62	-8.39	-1.05	4.04
Regency. Klungkung	5.48	5.42	-6.38	-0.23	3.12
Regency. Bangli	5.48	5.45	-4.10	-0.33	2.79
Regency. Karangasem	5.44	5.50	-4.49	-0.56	2.58
Regency. Buleleng	5.60	5.51	-5.80	-1.27	3.11
Denpasar City	6.42	5.82	-9.44	-0.92	5.06
Bali province	6.31	5.60	-9.34	-2.46	4.84

Source: *Badan Pusat Statistik, 2023*

Table 1 shows that economic growth in Bali Province for the 2018-2022 period experienced fluctuations. For example, there was a significant decline from 2018 to 2020. This condition was caused by the slowing performance of foreign exports and investment as well as the ongoing spread of COVID-19 which caused a number of countries to still implement travel restriction and lockdown policies (Bank Indonesia, 2021). The economic decline in Bali Province is still visible in 2021, where this contraction is triggered by the accommodation and food and drink provision sector, the transportation and warehousing sector, as well as the financial services sector whichThis is the second contraction experienced by Bali during the Covid-19 pandemic and in 2020 (Kusnandar, 2022). The recovery of the tourism sector will also boost Bali's economic growth in 2022, which was recorded to grow by 4.84 percent in 2022.

Law no. 33 of 2004 Article 66 paragraph 1 explains that the success of regional autonomy is very dependent on the government's performance in managing regional finances in an orderly, economical, regulatory, efficient, effective, transparent and responsible manner. One of the crucial aspects in improving the performance of regional autonomy is maximizing original regional income. An increase in government revenue results in economic growth because more income is available to spend on essential products and utilities needed in the economy (Chimezie *et al*., 2020). Regional governments can be more independent in financing development programs and community services, and support the success of regional autonomy as a whole. Real conditions in the field show that most autonomous regions, or almost all regions in Indonesia, are not yet independent and unable to meet their regional spending needs (Syam & Zulfikar, 2022).

One way to describe local government performance is to use financial performance measurements. The research uses financial performance measurements such as the independence ratio and effectiveness ratio. Several studies conducted by Melmambessy (2022), Hadi & Khotimah (2022), Hershanty & Rizmukoip (2022), Anggraini (2023) said that the most crucial financial dimension of autonomous regions to research is the level of financial independence because it reflects the ability of regional governments to self-fund government activities, development and services to citizens who have contributed through taxes and levies. Another factor that is no less significant is the financial effectiveness of autonomous regions as a measure of regional success in achieving the realization of budgeted Regional Original Income (PAD).

The good and bad of regional financial performance can be seen from regional financial independence which can be seen from the large percentage of Original Regional Income and the precise management of regional expenditure which can be measured through the independence ratio. In research Royda & Riana (2019) and Syam & Zulfikar (2022) states that the higher the level of financial independence of a region means the higher the community's participation in paying regional taxes and levies which are components of PAD. The greater the needs that can be met, the higher the regional independence. On the other hand, the smaller the expenditure that is met with original regional income, the lower the level of independence of a region (Oki *et al*., 2020). High regional financial independence can support the level of community welfare in meeting the needs of the community in the region.

Other good regional financial performance can be seen from the government's effectiveness in exploring regional potential, lower dependence on the central government, and a larger portion of PAD to finance regional development. The effectiveness ratio of local original income shows the ability of local governments to mobilize PAD revenues according to targets (Supriyadi & Fandi, 2021). In research conducted by Darmastuti *et al*. (2022) and Rahman *et al*. (2021) states that the higher the effectiveness ratio value, it can be said that the region has used PAD effectively in realizing work programs to carry out development and improve the welfare of the community or vice versa. Effectiveness in managing regional wealth will influence regional revenues which can then be used to improve the welfare of the community.

One factor that can have an influence on economic growth is improving public infrastructure. Providing a larger budget for capital expenditure causes an increase in capital expenditure related to improving infrastructure and public facilities (Kanaiya & Mustanda, 2020). The higher level of capital investment is expected to improve the quality of public services, because fixed assets owned as a result of capital expenditure are the main prerequisite for providing public services by local governments. In reality, not all regions are able to use regional revenues to fund capital expenditure activities. According to Marselina & Herianti (2022), A low capital expenditure ratio implies that regional income realization is also still low so that funding sources to finance capital expenditure activities are limited. When internal funds fall short of capital expenditures, the resulting financing gap must be closed by reducing assets or borrowing from other institutional units (Davis *et al*., 2023).

The actual regional revenue and capital expenditure are very different. Some regions have a value of Original Regional Income that is smaller than capital expenditure, so it can be seen that capital expenditure is not fully financed by Original Regional Income.During the 2018-2022 period, the realization of capital expenditure in each regional government in Bali experienced fluctuations with several regions showing a decreasing trend. This is contrary to the theory of economic growth which states that investment in capital expenditure can be a driver of economic growth (LRA District/City in Bali Province and www.djpk.kemenkeu.go.id).

This research is motivated by research gaps in previous studies. Research conducted by Indiyanti & Rahyuda (2018), Arif & Indra (2019), Setiawan (2019), and Darmastuti *et al*. (2022) states that the regional financial independence ratio has a significant positive effect on capital expenditure. This research is different from research conducted by Nasrullah *et al*. (2020), Zainul & Tunjung (2022), and Andani (2022) which states that regional financial independence has a negative and significant effect on capital expenditure.

Research conducted by Ayu *et al*. (2019), Marlina (2019), Seftyawati & Rahayu (2019), and Wulandari (2022) which states that the effectiveness of PAD has a significant positive effect on capital expenditure. This research is different from research conducted by Indiyanti & Rahyuda (2018), Mutiah (2019), Darmastuti *et al*. (2022), Andani (2022), Zainul & Tunjung, (2022), and Ishak *et al*. (2021) stated that the PAD effectiveness ratio had no significant effect on the allocation of capital expenditure.

Research conducted by Royda & Riana (2019), Yanto & Astuti (2020) and Syam & Zulfikar (2022) shows that the regional financial independence ratio has a positive effect on economic growth. This is in line with research Prakoso *et al*. (2019) which states that regional financial independence has a significant positive effect on economic growth. The results of this research are different from research conducted by Yuliana *et al*. (2020), Afif & Ciptawaty (2020) and Oktalina (2020) which states that regional independence does not affect economic growth.

Research on the ratio of effectiveness to economic growth was carried out by several previous studies, namely Ayu *et al*. (2019) and Oktalina (2020) states that the PAD effectiveness ratio has a direct effect on economic growth. This research is supported by research conducted by Azhari *et al*. (2020) which states that the

regional effectiveness ratio has a positive and significant effect on regional economic growth, while according to Kumpangpune *et al*. (2019), Wahyuni & Pratama (2023) and Rahman *et al*. (2021) states that there is no influence of the financial effectiveness ratio variable on economic growth.

Research by Utami & Indrajaya (2019), Kurniawati & Muzdalifah (2022), Pentury (2020), Winarni *et al*. (2020), Etika *et al*. (2022), and Hailuddin *et al*. (2022) states that capital expenditure has a positive and significant effect on economic growth. This research is in line with research conducted by Yanti *et al*. (2021), Wati *et al*. (2021), Bisai *et al*. (2021), and Daniel *et al*. (2021) which states that capital expenditure directly influences economic growth. The results of this research are different from research conducted by Palguno *et al*. (2020) and Wartiah (2023) which states that capital expenditure does not have a significant effect on economic growth.

The results of research conducted by Zulkarnain *et al*. (2019), Haq *et al*. (2023), Wartiah (2023), Fernanda *et al*. (2023) the regional financial independence ratio influences economic growth through capital expenditure. This research is different from the results of research conducted by Sartika (2019), Yuliana *et al*. (2020), Hartono *et al*. (2020) states that capital expenditure is unable to mediate the effect of financial independence on economic growth.

Research conducted by Ayu *et al*. (2019), Zulkarnain *et al*. (2019), Haq *et al*. (2023), Wartiah (2023) states that capital expenditure is able to mediate the effect of the effectiveness ratio on economic growth. This research is different from research conducted by Hartono *et al*. (2020) and Fernanda *et al*. (2023) stated that capital expenditure is unable to mediate the relationship between effectiveness ratio and regional economic growth.

Based on the phenomena and differences in the results of previous research, it is necessary to conduct research on the causes of the phenomenon of economic growth. This research examines variables that are thought to have an influence on economic growth.So the author is interested in conducting research with the title "The Influence of the Independence Ratio and Effectiveness Ratio on Economic Growth Through Capital Expenditures" in Regency/City Regional Governments in Bali Province for the 2018-2022 Period.

RESEARCH METHODS

An associative quantitative approach is used in this research, this is because associative research has the nature of connecting two or more variables (Wardana, 2021:6). This research is intended to determine economic growth in districts/cities in Bali Province for the 2018-2022 period when viewed from the independence ratio and regional financial effectiveness ratio through capital expenditure. This research was conducted at the Regency/City Regional Government in Bali Province.

Data was obtained from the Bali Province Central Statistics Agency (BPS) via the website https://bali.bps.go.id/, official website www.djpk.kemenkeu.go.id, and Budget Realization Report (LRA) of Regency/City Regional Governments in Bali Province. The population and sample in this research are all district/city regional governments in the province of Bali consisting of eight districts namely Jembrana, Tabanan, Badung, Gianyar, Klungkung, Bangli, Karangasem, and Buleleng as well as

one city government, namely Denpasar City for the 2018-2022 period. The sampling method used in this research is a saturated sampling technique. Saturated sampling is a sample determination technique when all members of the population are used as samples in relatively small numbers (Wardana, 2021:85).

The data collection method used was non-participant observation. According to Wardana (2021:125), non-participant is an observation where the researcher does not participate directly in the activity or process being observed.

RESULTS AND DISCUSSION

Research result

Classical Assumption Testing

a) Normality test

Table 1. Summary of Normality Test

Influence	Probability	Results
X1 and X2 against Z	p=0.392222	The normality assumption is met
X1, X2, and Z against Y	p=0.188915	The normality assumption is met

Based on table 2, the summary of the normality test above, it can be seen that the probability value of the influence of the independence ratio and effectiveness ratio on capital expenditure as well as the influence of the independence ratio, effectiveness ratio and capital expenditure on economic growth is greater than 0.05. So it can be concluded that the data used in this research is normally distributed.

b) Autocorrelation Test

Table 2. Summary of Autocorrelation Test Summary

Influence	Durbin Watson	Results
X1 and X2 against Z	1.741565	There is no autocorrelation
X1, X2, and Z against Y	1.800031	There is no autocorrelation

Table 3 shows that the Durbin Watson value influences the independence ratio and effectiveness ratio on capital expenditure by -2 <1.741565 < +2 and Durbin Watson's value of the influence of the independence ratio, effectiveness ratio and capital expenditure on economic growth is -2 <1.800031 < +2, then it can be concluded that the autocorrelation test assumptions have been met.

c) Multicollinearity Test

Table 4. Summary of Multicollinearity Test

Influence	VIF	Results
X1 and X2 against Z	X1 = 1.008271	Multicollinearity does not occur
	X2 = 1.008271	Multicollinearity does not occur
X1, X2, and Z against Y	X1 = 1.248294	Multicollinearity does not occur
	X2 = 1.951709	Multicollinearity does not occur
	Z = 2.269659	Multicollinearity does not occur

Table 4 shows that the variance inflation factors (VIF) value of the influence of the independence ratio and effectiveness ratio on capital expenditure as well as

the influence of the independence ratio, effectiveness ratio and capital expenditure on economic growth is less than 10, so it can be concluded that the multicollinearity test assumptions have been met.

d) Heteroscedasticity Test

Table3. Summary of Heteroscedasticity Test

Influence	Probability	Results
X1 and X2 against Z	p = 0.1723	Heteroscedasticity free
X1, X2, and Z against Y	p = 0.7883	Heteroscedasticity free

Based on table 5, it can be concluded that the probability value (Obs*R2) of The influence of the independence ratio and effectiveness ratio on capital expenditure is0.1723 > 0.05 and The probability value of the influence of the independence ratio, effectiveness ratio and capital expenditure on economic growth is 0.7883 > 0.05. So it can be concluded that the heteroscedasticity test assumptions have been met or the regression results do not contain heteroscedasticity.

Estimation of Panel Data Regression Models

1) Common effects model

Table 4. Summary of Common Effect Model Model I

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	329.8955	88.54465	3.725754	0.0006
X1	5.684268	0.906738	6.268922	0.0000
X2	-2.648925	0.837735	-3.162007	0.0029
R-squared	0.559405	F-statistic		26.66284
Adjusted R-squared	0.538424	Prob(F-statistic)		0.000000

Based on table 6, the estimation results for the common effect panel data regression model, statistically the independence ratio variable has a significant positive effect on capital expenditure, where the prob value of the independence ratio is 0.0000 (<0.05) and the effectiveness ratio has a significant negative effect on capital expenditure. where the prob effectiveness ratio value is 0.0029 (<0.05).

Table 5. Summary of Common Effect Model Model II

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-16.36656	4.320246	-3.788341	0.0005
X1	-0.092993	0.053363	-1.742655	0.0889
X2	0.163519	0.039429	4.147197	0.0002
Z	0.021529	0.006527	3.298503	0.0020
R-squared	0.329594	F-statistic		6.718989
Adjusted R-squared	0.28054	Prob (F-statistic)		0.000860

Based on table 7, the estimation results for the common effect panel data regression model, statistically the independence ratio variable has a negative and insignificant effect on economic growth, where the independence ratio probability value is 0.0889 (>0.05), the effectiveness ratio variable has a significant positive effect on growth. economy, where the prob value of the effectiveness ratio is 0.0002

(<0.05), the capital expenditure variable has a significant positive effect on economic growth, where the prob value of expenditure is 0.0020 (<0.05).

2) Fixed effects model

Table 6. Summary of Fixed Effect Model Model I

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	260,878	100,803	2.587999	0.0141
X1	5.964935	2.854546	2.089627	0.0442
X2	-2.013774	1.108993	-1.815858	0.0782
R-squared	0.644899	F-statistic		6.174753
Adjusted R-squared	0.540458	Prob (F-statistic)		0.000027

Based on table 8, the estimation results for the panel data regression model fixed effect model, statistically the independence ratio variable has a significant positive effect on capital expenditure, where the prob value of the independence ratio is 0.0442 (<0.05) and the effectiveness ratio has an insignificant negative effect on capital expenditure. , where the prob effectiveness ratio value is 0.0782 (>0.05).

Table 9. Summary of Fixed Effect Model Model II

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-20.47339	4.644817	-4.407792	0.0001
X1	0.173508	0.12771	1.358616	0.1835
X2	0.126851	0.048919	2.593085	0.0141
Z	0.021497	0.007223	2.976176	0.0054
R-squared	0.467434	F-statistic		2.633100
Adjusted R-squared	0.289911	Prob(F-statistic)		0.015532

Based on table 9, the estimation results for the panel data regression model fixed effect model, statistically the independence ratio variable has a positive and insignificant effect on economic growth, where the independence ratio prob value is 0.1835 (>0.05), the effectiveness ratio variable has a significant positive effect on growth. economics, where the prob value of the effectiveness ratio is 0.0141 (<0.05), the capital expenditure variable has a positive and insignificant effect on economic growth, where the prob value of expenditure is 0.0054 (>0.05).

3) Random effects model

Table 7. Summary of Random Effect Model Model I

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	329.8955	88.34937	3.733988	0.0006
X1	5.684268	0.904738	6.282778	0.0000
X2	-2.648925	0.835888	-3.168996	0.0029
R-squared	0.559405	F-statistic		26.66284
Adjusted R-squared	0.538424	Prob(F-statistic)		0.000000

Based on table 10, the estimation results for the random effect panel data regression model, statistically the independence ratio variable has a significant positive effect on capital expenditure, where the prob value of the independence ratio is 0.0000 (<0.05) and the effectiveness ratio has a significant negative effect on capital expenditure. where the prob effectiveness ratio value is 0.0029 (<0.05).

Table 8. Summary of Random Effect Model Model II

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-16.36656	4.292016	-3.813258	0.0005
X1	-0.092993	0.053014	-1.754117	0.0869
X2	0.163519	0.039171	4.174474	0.0002
Z	0.021529	0.006484	3,320198	0.0019
R-squared	0.329594	F-statistic		6.718989
Adjusted R-squared	0.280540	Prob(F-statistic)		0.000860

Based on table 11, the estimation results for the random effect panel data regression model, statistically the independence ratio variable has a negative and insignificant effect on economic growth, where the independence ratio probability value is 0.0869 (>0.05), the effectiveness ratio variable has a significant positive effect on growth. economy, where the prob value of the effectiveness ratio is 0.0002 (<0.05), the capital expenditure variable has a significant positive effect on economic growth, where the prob value of capital expenditure is 0.0019 (<0.05).

Selection of Panel Data Regression Models

1) **Chow Test**

Table 9. Summary of Chow Test

Influence	Probability	Results
X1 and X2 against Z	p = 0.2862	Prob > 0.05, The selected model is CEM
X1, X2, and Z against Y	p = 0.2408	Prob > 0.05, The selected model is CEM

Based on table 12, the results of the Chow test can be seen that the cross section probability value of the influence of the independence ratio and effectiveness ratio on capital expenditure is 0.2862 > 0.05, then the model chosen is common effect. The cross section probability value of the influence of the independence ratio, effectiveness ratio, capital expenditure on economic growth is 0.2408 > 0.05, then the model chosen is common effect.

2) **Hausman Test**

Table 10. Summary of Hausman Test

Influence	Probability	Results
X1 and X2 against Z	p = 0.2996	Prob > 0.05, The selected model is REM
X1, X2, Z against Y	p = 0.0670	Prob > 0.05, The selected model is REM

Based on table 13, the results of the Hausman test can be seen that the cross section probability value of the influence of the independence ratio and effectiveness

ratio on capital expenditure is 0.2996 > 0.05, then the model chosen is random effect. The cross section probability value of the influence of the independence ratio, effectiveness ratio, capital expenditure on economic growth is 0.0670 > 0.05, then the model chosen is random effect.

3) Lagrange Multipliers Test

Table 14. Summary of LM Test

Influence	Probability	Results
X1 and X2 against Z	p = 0.8325	Prob > 0.05, The selected model is CEM
X1, X2, and Z against Y	p = 0.1743	Prob > 0.05, The selected model is CEM

Based on table 14, the results of the Lagrange multiplier test can be seen that the Breusch-Pagan cross section probability value for the influence of the independence ratio and effectiveness ratio on capital expenditure is 0.8325> 0.05, then the model chosen is common effect. The Breusch-Pagan cross section probability value for the influence of the independence ratio, effectiveness ratio, capital expenditure on economic growth is 0.1743 > 0.05, then the model chosen is common effect.

Path Analysis

Table 11. Summary of Common Effect Model

Path	Coefficient	Std. Error	t-Statistics	Prob.	R-Squared	Prob(F-statistic)
X1 -> Z	5.684268	0.906738	6.268922	0.0000	0.559405	0.000000
X2 -> Z	-2.648925	0.837735	-3.162007	0.0029		
C	329.8955	88.54465	3.725754	0.0006		
X1 -> Y	-0.092993	4.320246	-1.742655	0.0889	0.329594	0.000860
X2 -> Y	0.163519	0.053363	4.147197	0.0002		
Z -> Y	0.021529	0.039429	3.298503	0.0020		
C	-16.36656	0.006527	3.298503	0.0020		

In table 15 described that in the first regression model the independence ratio and effectiveness ratio had an effect on capital expenditure. In the second regression model, the independence ratio has no effect on economic growth, but the effectiveness ratio and capital expenditure have an effect on economic growth.

Based on table 15, the standard error can then be calculated using the following calculations:

$e_i = \sqrt{1 - R2}$

$e_1 = \sqrt{1 - 0{,}559405} = 0{,}663773$

$e_2 = \sqrt{1 - 0{,}329594} = 0{,}818783$

Based on table 15, then the regression equation for structure I and structure II can be created as follows.

Structural equation I:

$Y_1it = \beta 0 + \beta 1X1it + \beta 2X2it + \varepsilon 1$

Y_1it = 329.8955 + 5.684268X1it - 2.648925X2it + 0.663773

From structural equation I, the research results can be interpreted as follows.

1) The constant coefficient value is 329.8955, meaning that if the independence ratio and effectiveness ratio variables are considered constant then capital expenditure will increase by 329.8955.
2) The independence ratio coefficient value is equal to 5.684268, meaning that for every one unit increase in the independence ratio, capital expenditure will increase by 5.684268 assuming other variables remain constant.
3) The effectiveness ratio coefficient value is -2.648925, meaning that for every one unit increase in the effectiveness ratio, capital expenditure will decrease by 2.648925 assuming other variables remain constant.

Structural equation II:

Y2it = β0 + β3X1it + β4 X2it + β5 Y1Y1it + ε2

Y2it = -16.36656 - 0.092993X1it + 0.163519X2it + 0.021529Y1it + 0.818783

From structural equation II, the research results can be interpreted as follows.

1) The constant coefficient value is -16.36656, meaning that if the independence ratio, effectiveness ratio and capital expenditure variables are considered constant then economic growth will decrease by 16.36656.
2) The independence ratio coefficient value is -0.092993, meaning that for every one unit increase in the independence ratio, economic growth will decrease by 0.092993 assuming other variables remain constant.
3) The effectiveness ratio coefficient value is equal to 0.163519, meaning that for every one unit increase in the effectiveness ratio, economic growth will increase by 0.163519 assuming other variables remain constant.
4) The capital expenditure coefficient value is equal to 0.021529, meaning that for every one unit increase in capital expenditure, economic growth will increase by 0.021529 assuming other variables remain constant.

Sobel Test

Table 15 shows the magnitude of the regression coefficient value so that it is known whether the mediation effect is significant or notby flowing the path:

1) Calculation of Sobel test structure I: Test of the capital expenditure variable as a mediating variable on the influence of the independence ratio on growth in the Regency/City of Bali Province

$$t = \frac{ab}{\sqrt{b^2SE^2a + (a^2SE^2b)}}$$

$$t = \frac{5{,}684268 \text{ x } 0{,}021529}{\sqrt{(0{,}021529^2 \text{ x } 0{,}906738^2) + (5{,}684268^{\,2} \text{ x } 0{,}039429^2)}}$$

$$t = \frac{0{,}122377}{\sqrt{0{,}000381 + 0{,}050232}}$$

$$t = \frac{0{,}122377}{\sqrt{0{,}050613}}$$

t = 0.543962

From the results of the Sobel test calculation for structure I, we get a value of tcount < ttable of 0.543962 < 2.0180. So the independence ratio has no effect on economic growth through the capital expenditure variable as a mediating variable.

2) Sobel structure test calculation II: Test of the capital expenditure variable as a mediating variable in the influence of the effectiveness ratio on growth in the Regency/City of Bali Province

$$z = \frac{cd}{\sqrt{d^2SE^2c + (c^2SE^2d)}}$$

$$z = \frac{-2{,}648925 \text{ x } 0{,}021529}{\sqrt{(0{,}021529^2 \text{ x } 0{,}837735^2) + (-2{,}648925^{\,2} \text{ x } 0{,}039429^2)}}$$

$$z = \frac{-0{,}057029}{\sqrt{0{,}000325 + 0{,}010909}}$$

$$z = \frac{-0{,}057029}{\sqrt{0{,}011234}}$$

z = -0.538057

From the results of the Sobel test structure II calculation, we get a value of tcount < ttable of 0.538057 < 2.0180. So the effectiveness ratio has no effect on economic growth through the capital expenditure variable as a mediating variable.

Hypothesis test

Model Test (F Test)

The results of the F statistical test in table 15 of structure I, namely the influence of the independence ratio and effectiveness ratio on capital expenditure, show a significance value of0.000000 < 0.05, so it can be concluded that H0 is rejected and H1 is accepted. This means that there issimultaneous relationship between the independence ratio and the effectiveness ratio with capital expenditure.

The results of the F statistical test in table 15 of structure II, namely the influence of the independence ratio, effectiveness ratio and capital expenditure on economic growth, show a significant value 0.000860 < 0.05, so it can be concluded that H0 is rejected and H1 is accepted. This means that there issimultaneous relationship between independence ratio, effectiveness ratio, and capital expenditure with economic growth.

Partial Test (t Test)

The t test is used to test the significance of the constant and each independent variable. The results of the analysis from this t test are as follows.

1) The influence of the independence ratio on capital expenditure
   Based on the data in table 15, it shows a t-statistic value of 6.268922 with the probability value of the independence ratio 0.0000 < 0.05. This means that H0 is rejected and H1 is accepted, so it can be concluded thatthe independence ratio variable has a significant positive effect on the capital expenditure variable. This means that the independence ratio has a significant effect on increasing capital expenditure.
2) The influence of the effectiveness ratio on capital expenditure

Based on the data in table 15, it shows a t-statistic value of -3.162007 with the probability value of the effectiveness ratio 0.0029 < 0.05. This means that H0 is accepted and H1 is rejected, so it can be concluded that The effectiveness ratio variable has a significant negative effect on the capital expenditure variable. It means,The effectiveness ratio has a significant effect on reducing capital expenditure.

3) The influence of the independence ratio on economic growth
   Based on the data in table 15, it shows a t-statistic value of -1.742655 with the probability value of the independence ratio 0.0889 > 0.05. This means that H0 is accepted and H1 is rejected, so it can be concluded thatThe independence ratio variable has an insignificant negative effect on the economic growth variable. This means a change in the value of the independence ratiodoes not have a significant effect on reducing economic growth.
4) The influence of the effectiveness ratio on economic growth
   Based on the data in table 15, it shows the t-statistic value 4.147197with the probability value of the effectiveness ratio 0.0002 < 0.05. This means that H0 is rejected and H1 is accepted, so it can be concluded thatThe effectiveness ratio variable has a significant positive effect on the economic growth variable. It means, the effectiveness ratio has a significant effect on increasing economic growth.
5) The effect of capital expenditure on economic growth
   Based on the data in table 15, it shows a t-statistic value of 3.298503 with the probability value of capital expenditure 0.0020 < 0.05. This means that H0 is rejected and H1 is accepted, so it can be concluded that The capital expenditure variable has a significant positive effect on the economic growth variable. This means that capital expenditure has a significant effect on increasing economic growth.
6) The influence of the independence ratio on economic growth through capital expenditure
   Based on the results of the structure I sobel test,The value of tcount < ttable is equal to 0.543962 < 2.0180, then the capital expenditure variable is unable to mediate the effect of the independence ratio on economic growth.This means that the ratio of independence to economic growth does not have a significant influence in the research model.
7) The effect of the effectiveness ratio on economic growth through capital expenditure
   Based on the results of the Sobel structure test II, The value of tcount < ttable is equal to 0.538057 < 2.0180, then the capital expenditure variable is unable to mediate the effect of the effectiveness ratio on economic growth.This means that the ratio of effectiveness to economic growth does not have a significant influence in the research model.

Coefficient of Determination (R^2)

The results of the regression test of the coefficient of determination in table 15 show that the R-square value (R^2) structure I of 0.559405 or equal to 55.94%. This

means that 55.94% is given to the independence ratio and effectiveness ratio variables together on capital expenditure, while the remaining 44.06% is influenced by other independent variables which are not included in this research.

The results of the regression test of the coefficient of determination in table 15 are the R-square numbers (R^2) structure II of 0.329594 or equal to 32.96%. In other words, the economic growth variable can be explained using the independence ratio, effectiveness ratio and capital expenditure variables of 32.96%, while the remaining 67.04% is explained by other variables outside this research model.

Discussion of Research Results

The Influence of the Independence Ratio on Capital Expenditures

The results of this research show thatThe independence ratio has a significant positive effect on capital expenditure, so it can be concluded that the first hypothesis is accepted. It means, A higher regional independence ratio means that capital expenditure will also increase. The ability of regions to finance their own government activities, development and public services to the community has increased so that the allocation of capital expenditure has also increased.

Adolf Wagner's theory states that the regional financial independence ratio shows the level of capability of a regionin self-financing government activities, development and services to the community who have paid taxes and levies as a source of regional income. In the perspective of neoclassical growth theory, the level of technological progress plays an important role which can ultimately increase total output production (Zulkarnain *et al*., 2019). An increase in the independence ratio is generally driven by an increase in Original Regional Income (PAD) which gives regions more funds to allocate to capital expenditure (Sari, 2022). Regions with a high independence ratio tend to be less dependent on transfers from the central government and have the ability to plan and manage finances better.

The increase in the independence ratio was followed by an increase in capital expenditure experienced by Badung Regency in 2022. Badung Regency received Regional Original Income (PAD) of IDR 3.71 trillion, which consists of various tax sources, including hotel, restaurant, entertainment and land taxes. and buildings (BPS Bali, 2023). Revenue is used as a source of fund allocation for various development activities. In 2022, capital expenditure will be focused on building and construction activities. One of the main projects is the arrangement of the Seminyak beach area, Legian Beach and Kuta Beach which are located in Kuta District, Badung Regency. This project is expected to improve the quality of infrastructure, attract tourists and increase productivity.

Badung Regency has a very high ability to collect PAD so that it influences the high ratio of independence which is supported by Hotel Tax, Restaurant Tax and Entertainment Tax. The increase in these three types of regional taxes is of course the impact of the use of information technology, in order to support the implementation of regional tax collection in Badung Regency in accordance with Badung Regency Regional Regulation Number 2 of 2016 concerning the Online Regional Tax System (KFR Bali, 2018).

This research is in line with research conducted by Indiyanti & Rahyuda (2018), Triannur *et al*. (2018), Arif & Indra (2019), Darmastuti *et al*. (2022), and Edison *et al*.

(2022) Whichh states that there is a significant positive relationship between the independence ratio and capital expenditure.

The Effect of Effectiveness Ratios on Capital Expenditures

The results of this research show thatThe effectiveness ratio has a significant negative effect on capital expenditure, so it can be concluded that the second hypothesis is rejected.This means that an increase in the effectiveness ratio tends to reduce capital expenditure. The higher the financial effectiveness of a regional government, the lower the capital expenditure of that regional government.

Financial effectiveness is a financial picture in realizing the planned Original Regional Income compared to the established Regional Original Income target (Ishak *et al*., 2021).The more effective a region is, the programs realized by that region will provide benefits to the people's economy (Azhari *et al*., 2020). In the neoclassical economic growth perspective, investment in capital expenditure can increase the productivity of labor and capital. With effective PAD management, local governments can create conditions that support this increase in productivity. Regions are able to implement decentralization if PAD reaches budget targets. Improving public services through PAD is expected to support investment and maintenance of regional infrastructure.

This research shows that regional government efforts cannot realize the planned PAD in accordance with the targets set, so that capital expenditure allocations are not realized effectively, thereby hampering development in improving public service facilities. Regions with a high effectiveness ratio may prefer to allocate budgets to sectors that are considered more urgent or have a direct impact. Buleleng Regency has an increasing effectiveness ratio followed by capital expenditure which tends to decrease from 2018 to 2022. This condition reflects a shift in regional expenditure priorities. This increase in expenditure is a refocusing of the budget aimed at handling the COVID-19 pandemic, namely for handling health, providing social safety networks, and handling the economic impact.

This research tooshows that the efforts of the Regency/City Regional Government in Bali Province to achieve PAD that is greater than its target, should be able to increase the allocation of capital expenditure, but the expenditure within the scope of the Bali Regional Government is still dominated by consumptive spending (employee and goods expenditure). Bangli Regency in 2019 and 2020 showed quite high employee expenditure figures, meaning that regional expenditure was absorbed only to pay for employee expenditure (KFR Bali, 2020). This needs to be a concern because in the long term it will hinder economic growth, especially in the Bangli Regency area.

This research strengthens previous research by Indiyanti & Rahyuda (2018),Mutiah (2019),Andani (2022),Ishak *et al*. (2021), And Zainul & Tunjung, (2022)which states that the effectiveness ratio has a significant negative influence on capital expenditure.

The Influence of the Independence Ratio on Economic Growth

The results of this research show thatThe independence ratio has an insignificant negative effect on economic growth, so it can be concluded that the third hypothesis is rejected. It means,A higher independence ratio may be associated

with lower economic growth, but the effect is not strong enough to be considered significant in statistical analysis.

Classic and fast track growth theory emphasizes the importance of a high level of savings for a region to be able to finance its own operational and development needs.The higher the savings rate in an economy, the more capital can be invested in the production of goods and services, thereby driving long-term economic growth. According toWidilestariningtyas (2019)A region can be said to be economically independent if the region's financial independence can maximize the region's original income.

Regency/City regional governments in Bali Province have not optimally utilized their local strengths. A region should be able to balance external forces by maximizing local potential, one of which is by facilitating the investment process. Karangasem Regency as a region that relies on primary sectors such as agriculture requires more investment and time to see significant economic growth compared to regions that have more developed industrial or service sectors.

Karangasem Regency shows a relatively low but stable independence ratio, with 13.51% in 2018 and 19.10% in 2022. Its economic growth also fluctuates without showing a significant trend. Different regional economic structures influence these results. Karangasen Regency is an area dominated by agriculture, when this business field experiences a decline in production it will restrain overall economic growth. Regions with less developed economic sectors may not be able to take advantage of increased PAD to encourage significant economic growth.

2022 will be the momentum for economic revival after the COVID-19 pandemic gradually begins to subside. The economic growth of Karangasem Regency is able to grow positively, influenced by the business field of providing accommodation and food and drink, transportation and trade, and financial and insurance services and other services.

This research strengthens the results of previous research by Kumpangpune *et al*. (2019), Afif & Ciptawaty (2020), Octalina (2020), and Yuliana *et al*. (2020) which states that regional independence has a negative but not significant effect on economic growth.

The Effect of Effectiveness Ratios on Economic Growth

The results of this research show thatThe effectiveness ratio has a significant positive effect on economic growth, so it can be concluded that the fourth hypothesis is accepted. It means,The more effective a region is, the better its economic growth will be. The effectiveness of regional government performance in mobilizing regional revenue sources originating from PAD will influence the rate of regional economic growth.

The effectiveness ratio of local original income is used to provide a specific picture of the implementation of regional autonomy, which in this case means the implementation of income that originates from the region (Abdulaziz, 2021). In the context of neoclassical growth theory and fast track growth, a high effectiveness ratio should have a positive influence on economic growth. This is because effectiveness in managing production resources, such as capital and labor as well as the application of technology and innovation, is considered an important factor in

increasing productivity and economic performance which will encourage long-term economic growth.

In this case, it means that the Regency/City regional government in Bali Province is quite effective in managing resources or fully exploiting the potential to drive economic growth optimally. Especially in Denpasar City, it shows a high and stable effectiveness ratio during the 2018 to 2022 period, and economic growth improves in 2022 after a decline in 2020 and 2021 due to the COVID-19 pandemic. This shows that Denpasar City has succeeded in achieving or exceeding its PAD target, indicating that regional economic conditions are capable of supporting the achievement of this target.

Denpasar City's ability to realize PAD compared to its target is supported by the use of technology and innovation. For example, the application of the Denpasar Smart City concept which aims to make Denpasar City a smart city through better development and management of resources, by utilizing information and communication technology. The Denpasar City Government has built 38.18 kilometers of fiber optic (FO) network since 2013, or around 62 percent of regional equipment to villages/sub-districts are covered by the FO network (NusaBali, 2022). Implementation of this concept aims to increase effectiveness and improve public services and support sustainable development efforts.

The results of this research are in line with the results of research by Alam *et al*. (2017) found that government effectiveness has a significant positive effect on economic growth. Several other studies by Nadia *et al*. (2018), Sari *et al*. (2019), Ayu *et al*. (2019), Azhari *et al*. (2020), and Octalina (2020) states that the PAD effectiveness ratio has a direct effect on economic growth.

The Effect of Capital Expenditures on Economic Growth

The results of this research show thatcapital expenditure has a significant positive effect on economic growth, so it can be concluded that the fifth hypothesis is accepted. It means,Increased capital expenditure can increase economic growth. Capital expenditures issued by regional governments have a large influence on increasing regional economic growth. By granting authority to regions to carry out budg*et al*location functions, regional governments can allocate capital expenditure which can increase effectiveness and efficiency which can have a positive influence on the economy.

In the Harrod-Domar Theory, increasing capital expenditure can have a positive impact on economic growth through increasing aggregate demand and infrastructure investment. Capital expenditures made by regional governments to increase economic growth in their regions include spending on infrastructure such as roads, bridges, networks, equipment and machinery, as well as buildings and structures. By improving existing infrastructure, the process of distributing the region's production will be easier. Apart from that, capital expenditure in the form of buildings and structures will improve and speed up the service process to the community. With good and fast public services, people can focus on efforts to increase their production.

In Bangli Regency from 2018 to 2022, it shows that the value of capital expenditure tends to increase, which will also increase economic growth. The

agriculture, forestry and fisheries sectors contributed 27.73% of the total added value created in Bangli. The agricultural industry plays an important role in Bangli's economic system where the majority of the population relies on farmers for their livelihood, so that increasing capital expenditure has the potential to stimulate local economic activity through increasing employment opportunities and increasing consumption. The next largest contribution was made by Government Administration at 11.49 percent. An increase in government spending, such as employee spending (13th salaries and holiday allowances) and capital spending, has meant that contributions from this category have increased (KFR Bali, 2022).

The economic structure of Bangli Regency is dominated by 6 main categories. In 2022, these six categories will contribute 78.15 percent to Bangli's growth. One category that plays a role is construction. This category is capable of contributing 8.92% in 2022 which includes the construction of various facilities and infrastructure such as repairing roads, bridges and building public facilities which contribute directly to improving the quality of public facilities and supporting the tourism industry (KFR Bali, 2022).

The results of this research are in line with the results of research by Utami & Indrajaya (2019), Kurniawati & Muzdalifah (2022), Pentury (2020), Winarni *et al*. (2020), Etika *et al*. (2022), and Hailuddin *et al*. (2022) states that capital expenditure has a positive and significant effect on economic growth.

The Effect of the Independence Ratio on Economic Growth Through Capital Expenditures

The results of this research show thatcapital expenditure is unable to mediate the effect of the independence ratio on economic growth, so it can be concluded that the sixth hypothesis is rejected. This means that the ratio of independence to economic growth through capital expenditure does not have a significant influence in the research model.

The regional independence ratio reflects the extent to which local governments can rely on local resources such as taxes and levies, which has a close relationship with community participation in paying taxes and levies. The higher the level of independence, the greater the community support, creating the potential for allocating greater funds for capital expenditure.In Adolf Wagner's theory, increasing government spending along with economic growth should reflect adequate financial independence.

The proportion of PAD in total regional revenues which is the source of funding for expenditure allocations is still low so that regions in allocating expenditures, especially capital expenditure allocations, are still dependent on revenue sources from the central government. As a result, even though there is growth in PAD every year, it does not have a large effect that could influence local government policy in determining capital expenditure allocations.

Several areas in Bali Province such as Bangli Regency, Jembrana Regency, Karangasem Regency, and Buleleng Regency from 2018 to 2022 have very low independence ratio values. This is because the regional government is still very dependent on income originating from transfer/balancing funds from the central

government and does not have sufficient space in the budget to provide funds for certain purposes because this will disrupt its fiscal solvency (KFR Bali, 2020).

Disparities between regions also still exist, namely in 2022 Badung Regency will be the region with the highest regional income of IDR 4,609.70 billion, while the lowest will be Jembrana Regency, namely IDR. 1,905.69 billion. The cause of this economic gap is the uneven distribution of tourism destination points so that there is inequality in enjoying the economic benefits of tourism activities. The tourism sector in Bali Province is still concentrated in Denpasar City, Badung Regency and Gianyar Regency, which has an impact on the high per capita income in these areas.

Regional financial capacity as demonstrated by the financial performance of regional governments can be used as a tool to measure the success of regional autonomy. The management and utilization of local capabilities of a region by regional governments that have not been maximized has an impact on the level of independence of a region. Another factor that influences economic growth is investment issued by local governments as a stimulus for economic growth. The size of regional investment realized through the proportion of capital expenditure is influenced by whether the regional financial performance is good or not.

The results of this research strengthen previous research by Sartika (2019), Yuliana *et al*. (2020), Hartono *et al*. (2020) states that capital expenditure is unable to mediate the effect of financial independence on economic growth.

The Effect of Effectiveness Ratios on Economic Growth Through Capital Expenditures

The results of this research show thatcapital expenditure is unable to mediate the effect of the effectiveness ratio on economic growth, so it can be concluded that the seventh hypothesis is rejected. This means that the ratio of effectiveness to economic growth through capital expenditure does not have a significant influence in the research model.

The effectiveness ratio reflects the extent to which a region has succeeded in achieving its Original Regional Income (PAD) target or even exceeding the planned budget. By achieving better local original income, regional expenditure financing can be increased, which in turn can increase the level of economic growth. In accordance with Wagner's Law, it will be greatly influenced by the economic development developments that occur. The bigger and more economic activities are carried out, the higher the realization of government spending will be (Pasaribu, 2020).

The finding that capital expenditure is unable to mediate the effect of the effectiveness ratio on economic growth indicates that other factors may play a more important role in supporting regional economic progress. This indicates that regions that have a high level of PAD effectiveness do not always have a high level of regional economic growth because it is not balanced with a high allocation of capital expenditure. UseIneffective capital expenditure in driving economic growth indicates that available resources are not managed well or are not used efficiently for sustainable investment.

The development of tourists in Bali over the last 20 years still relies on mass tourism and is not balanced with good planning. Tourism development has experienced very rapid growth over the last four decades in the Denpasar-Badung-

Gianyar-Tabanan (Sarbagita) region (KFR Bali, 2021). However, the development of the tourism sector which is concentrated in the South Bali region has caused stagnation in tourism growth in other areas of Bali. This causes uncontrolled expansion of urban areas (urban sprawl), problems with waste, clean water and traffic jams. This poor planning has created development gaps between regions in Bali, especially between North Bali and South Bali. Several tourism destinations were built without considering the carrying capacity and capacity of the area.

The development of tourism so far has been supported by tourism Human Resources (HR) whose quality is still limited, which simultaneously increases welfare only in certain areas, resulting in increased urbanization. This also encourages weak integration and connectivity of Bali's economy locally and regionally, resulting in gaps within Bali's regions and Bali's potential has not been utilized optimally.

Macroeconomic factors such as the COVID-19 pandemic and inflation also influence economic growth. For example, in 2020, most districts/cities experienced a significant decline in economic growth that could not be fully explained by capital expenditure. Then, during 2021, Denpasar City and Buleleng Regency experienced 7 months of inflation and 5 months of deflation (KFR Bali, 2021).

The results of this research are in line with the results of previous research by Hartono *et al*. (2020) and Fernanda *et al*. (2023) stated that capital expenditure is unable to mediate the relationship between effectiveness ratio and regional economic growth.

CONCLUSION

Research onThe influence of the independence ratio and effectiveness ratio on economic growth through capital expenditure in Regency/City Regional Governments in Bali Province from 2018 to 2022 has been described in the previous chapter, so the research results can be concluded as follows.

1) The independence ratio has a significant positive effect on capital expenditure in Regency/City Regional Governments in Bali Province. In other words, a higher regional independence ratio means that capital expenditure will also increase.
2) The effectiveness ratio has a significant negative effect on capital expenditure in Regency/City Regional Governments in Bali Province. In other words, the government's level of success in achieving its PAD target tends to reduce capital expenditure.
3) Independence ratio in significant negative effect on economic growthat the Regency/City Regional Government in Bali Province. In other words, although there is a tendency that as the independence ratio increases, economic growth tends to decrease, this change is not large enough to be considered a significant relationship.
4) The effectiveness ratio has a significant positive effect on economic growth in Regency/City Regional Governments in Bali Province. This means that the more effective a region is, the better its economic growth will be.
5) Capital spending has an impact significant positive impact on economic growthat the Regency/City Regional Government in Bali Province. This shows that capital expenditure is able to have a significant impact on economic growth.

6) Capital expenditure is unable to mediate the influence of the independence ratio on economic growth in Regency/City Regional Governments in Bali Province.This means that the ratio of independence to economic growth through capital expenditure does not have a significant influence in the research model.
7) Capital expenditure is unable to mediate the effect of the effectiveness ratio on economic growth in Regency/City Regional Governments in Bali Province. This means that the ratio of effectiveness to economic growth through capital expenditure does not have a significant influence in the research model.

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