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Analysis of Regional Financial Management on Economic Growth in the Era of Fiscal Decentralization in Makassar City

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Abstract

This study aims to determine how regional financial management performance during the Fiscal Decentralization Era affects the economic growth of Makassar City from 2013 to 2024. This study uses a quantitative descriptive analysis method, with calculations of the financial independence ratio, PAD effectiveness ratio, expenditure efficiency ratio, and revenue growth ratio, and continues with multiple linear regression. The results of the study show that the financial independence ratio is at an average of 65.26% which means participation; the PAD effectiveness ratio is at an average of 83.7% which means quite effective; the expenditure efficiency ratio is at an average of 98.8% which means less efficient, and the revenue growth ratio is at 5.66% with a moderate category. The results of statistical tests show that there is a positive and significant influence of the regional financial independence ratio and the PAD effectiveness ratio on economic growth, whereas the expenditure efficiency ratio and the revenue growth ratio have a negative and insignificant influence on economic growth in Makassar City.

INTRODUCTION

Autonomy area and decentralization fiscal is one element of unity as a form of policy autonomy granted to areas in the delegation of authority from the government center to the government expected area, capable of increasing the income of regions independently. (Christia et al., 2019). Milestone embodiment decentralization fiscal in Indonesia has been around since the ratification of Law Number 22 of 1999 concerning the Government Area and Law Number 25 of 1999 concerning the Balance Intergovernmental Finance Center, and the Regional Government area's own authority determines the role allocation of income that becomes a priority need something each area.

Draft decentralization is a tool that can push improvement efficiency in service more effectively. With that, the government can know the characteristics of the area as well as be more responsive to society, which can make the shopping area more effective in pushing economic growth. Regulation decentralization is also expected to be more capable of reaching development goals by making optimal policies in line with fulfillment sectoral obligations to the public. (Azwar, 2022).

The finance area is an important element in pushing the ability, autonomy, and planning development in various areas. The finance area is required. For the knowledge area, do proper analysis so that produce effective policies in the frame organization, government, and development area every year (Iii et al., 2018). Finance area must be carried out in an orderly manner, obeying the rules of legislation,

effective, efficient, economical, transparent, and responsible, paying attention to the principles of justice, propriety, and benefit for the Public.

Growth economy in perspective macro is the addition mark product Real Gross Domestic Product (GDP) or income national (Wahyudi, 2020). A growing economy marked with improvement capacity, something the statistics' economy, namely, where the conditions national economy or region grow and produce more goods and services than in the previous period. According to Sadono (Karto et al., 2015) Success economy something an area seen from growth economy area Meanwhile, the role of a statistician's government is seen from its ability to increase economic growth.

Makassar City is the center of economic growth in South Sulawesi, which is continuously developing. The central government allocates transfer funds for development activities in accordance with regional potential in accelerating economic growth. Spatially, Makassar City is a region with a higher level of fiscal independence compared to other regencies/cities. During 2019-2023, South Sulawesi's ADHK GRDP continued to increase from 330.51 trillion rupiah in 2019 to 377.16 trillion rupiah in 2023. Then, similarly, GRDP per capita also continued to increase from 37.47 million rupiah in 2019 to 40.29 million rupiah in 2023. The highest GRDP in South Sulawesi is Makassar City at 140.19 million rupiah. Makassar City is the mainstay of the South Sulawesi economy, with the largest contribution among the regencies/cities in South Sulawesi. So the economic peak that occurs in Makassar City can affect the South Sulawesi economy. (A'laa et al., 2022).

Table 1. Revenue and Expenditure of Makassar City Regional Government 2013-2024 (billion rupiah)

Year	Ratio Regional Independence	Locally-generated revenue		Balancing Fund	Regional Shopping
		Realization	Budget		
2013	2,361.04	619.59	525.85	1,161.28	2,335.02
2014	2,629.82	730.99	608.96	1,251.88	2,606.08
2015	2,952.61	828.87	992.15	1,402.77	3,062.27
2016	3,546.65	971.86	1,305.18	1,992.75	3,278.34
2017	3,416.36	1,337.23	1,332.55	1,680.47	3,313.62
2018	3,428.48	1,185.45	1,483.71	1,826.14	3,526.08
2019	3,666.36	1,303.32	1,649.40	1,856.22	3,549.12
2020	3,323.66	1,078.33	1,749.40	1,750.92	2,969.79
2021	3,286.05	1,140.33	1,686.39	1,717.86	3,150.50
2022	3,587.33	1,410.81	2,014.71	1,818.55	3,550.06
2023	4,049.38	1,568.27	2,360.63	2,011.98	4,507.73
2024	4,204.81	1,605.02	2,381.41	2,278.39	4,268.80

Source: Makassar City Financial Report 2013-2024 (data processed 2025)

Table 1. Shows that the Makassar City Balance Fund figure for 12 consecutive years has been greater than the PAD figure each year, which proves that Makassar City's potential is still minimal in funding its own finances, so that regional financial performance is relatively low because there is still dependence on central funds. Then the decline in Regional Original Income (PAD) year after year illustrates that the region has not been able to optimize its regional potential and increase the provision of public goods (Wahyuni, 2024).

The ability of local governments to monitor and control the Regional Budget (APBD), directly and indirectly, reflects their performance in funding and implementing government tasks for development and social services (Hidayati & Ali, 2023). In principle, the greater the contribution of Regional Original Revenue (PAD) to the APBD, the less dependent the region is on the central government. Therefore, regional financial independence can be assessed by the total PAD revenue relative to total regional income. Furthermore, the frequent occurrence of allocated budgets not meeting regional needs can negatively impact the economic perspective, efficiency, and effectiveness of regional financial management. This indicates a relatively declining quality of regional budget planning.

Regional budget oversight is a necessary form of implementation to achieve regional government performance indicators in managing the finances and resources of each region (Rahman et al., 2024). Therefore, researchers determined several independent variables using financial ratios such as the regional financial independence ratio, the PAD effectiveness ratio, the spending efficiency ratio, and the growth ratio, while the dependent variable was the economic growth of Makassar City.

This study focuses on the analysis of regional financial management in the era of fiscal decentralization. In contrast, previous studies have focused more on the influence of regional financial performance on economic growth. Researchers are interested in adding a new variable, namely the revenue growth ratio variable, as an indicator for assessing financial performance. Measuring fiscal independence can also be an accountability tool so as to be able to predict the sustainability of regional development, which is expected to be able to boost the economy in Makassar City. Of course, this study was conducted to examine the state financial system currently applied. The novelty of this study also lies in the data from the Makassar City Regional Financial Management Agency, which has the authority to manage the region's finances. This study focuses on the analysis of regional financial management in the era of fiscal decentralization. In contrast, previous studies have focused more on the influence of regional financial performance on economic growth. Researchers are interested in adding a new variable, namely the revenue growth ratio variable, as an indicator for assessing financial performance. Measuring fiscal independence can also be an accountability tool so as to be able to predict the sustainability of regional development, which is expected to be able to boost the economy in Makassar City. Of course, this study was conducted to examine the state financial system currently applied. The novelty of this research also lies in the data from the Makassar City Regional Financial Management Agency, which directly has the authority to manage the region's finances.

Based on the considerations and various arguments above, the researcher is interested in studying more specifically the regional financial management system implemented in Indonesia, as well as how the government's efforts to carry out wise revenue allocation to achieve national sustainability.

RESEARCH METHODS

This research is a quantitative descriptive study with a problem formulation that guides the research in exploring or capturing the social situation that is the object of research in a comprehensive, broad, and in-depth manner. This study uses secondary data. The population in this study is all annual data (time series data)

covering regional financial indicators (variable X) and economic growth indicators (variable Y) in Makassar City during the period 2013–2024. The sample used in this study is 12 annual data observations for each variable—in this case, the Independence Ratio, the PAD Effectiveness Ratio, the Expenditure Efficiency Ratio, the Revenue Growth Ratio, and the Economic Growth Ratio—from 2013–2024. Purposive sampling is used as the sampling technique.

This method considers the Makassar City Government's performance indicators in managing its regional finances using ratios. The data analysis technique used in this study is Multiple Linear Regression, by conducting Classical Assumption Tests, which include (Normality Test, Multicollinearity Test, Heteroscedasticity Test and Autocorrelation Test, as well as hypothesis testing using the t-test, F-test, and Adjusted R^2.

Multiple Linear Regression Analysis

The multiple linear regression equation in this study is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \quad \text{.....(1)}$$

Y= Growth Economy; α = Constant, β1, β2, β3, β4= Coefficient regression; X1= Ratio Independence Finance Area; X2= Ratio PAD Effectiveness; X3= Ratio Efficiency Shopping; X4= Ratio Growth income; and e= Standard error

Test Normality

The Normality Test aims to test whether the regression model of the dependent variable (Y), Economic Growth, and the Independent variable (X), namely X1 Regional Financial Independence Ratio, X2 PAD Effectiveness Ratio, X3 Spending Efficiency Ratio, X4 Income Growth Ratio, has a normal distribution or not.

Test Multicollinearity

Test Multicollinearity aims to test whether the model reveals found existence correlation between variables (X), namely the ratio of independence finance area, the ratio of PAD effectiveness, the ratio of efficiency shopping, ratio.

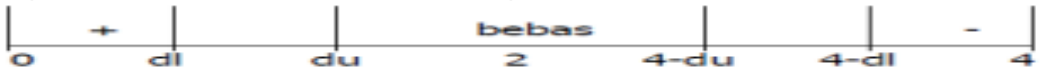
Test Autocorrelation

Test Autocorrelation has an objective to determine whether or not there is a problem with the autocorrelation moment testing.

As for the taking the Durbin Watson test result is :

- If 0 < d < dl, the hypothesis zero state No. There is autocorrelation, positive or decision rejected.
- If dl < d < du, the hypothesis zero state is No, There is autocorrelation, or No, There is a decision.
- If 4-dl < d < 4, the null hypothesis is a zero state. No, there is autocorrelation, negative, or the decision was rejected.
- If 4-du < d < 4-dl, the hypothesis zero state No. There is autocorrelation, negative or no. There is a decision.
- If du < d < 4-du, the hypothesis states No, There is autocorrelation, positive or negative, or the decision is accepted.

Figure 1. Durbin Watson Decision Diagram



Test Heteroscedasticity

Test Heteroscedasticity aims to test whether in the regression model happen inequality variance from one observation other.

t-test statistic

Purposeful t-test to see if there is or whether or not influence on partial (self) purchased variable (X), namely X1 ratio independence finance area, X2 ratio PAD effectiveness, X3 ratio efficiency shopping, X4 ratio growth income against variable (Y) Growth Economics. The t- test is Wrong One test statistics used for test truth or falsehood that states that between two mean random samples from the same, no there is significant difference. *The t-statistic* is something value used to view the level of significance in testing a hypothesis by searching the *t-statistic* through a bootstrapping procedure.

Decision making is done by looking at the significance value in the *Coefficients table*. The criteria are: from the t -t-statistic test:

- If the t-test significance value is > 0.05, then H_0 is accepted and Ha is rejected. This means there is no influence between the independent variable and the dependent variable.
- If the significance value of the t-test is <0.05, then H_0 is rejected, and Ha is accepted. This means there is influence between independent variables and dependent variables.

F Test (Simultaneous)

The F-test aims to determine whether the independent variables simultaneously influence the dependent variable. The F-test is conducted to determine the effect of all independent variables simultaneously on the dependent variable. The threshold level used is 0.5 or 5%. If the F-value is <0.05, it means that the independent variables simultaneously influence the dependent variable, or vice versa. The method for comparing the F-table and the F-statistic is as follows:

- **If F statistic > F table**
  The null hypothesis is rejected. This means the model is significant and the independent variables together have a significant effect on the dependent variable.
- **If F statistic < F table**
  The null hypothesis is accepted. This means the model is insignificant and the independent variables do not simultaneously influence the dependent variable.

Coefficient of Determination Test

The coefficient of determination, also known as R-squared, determines the extent to which the independent variables can explain the variance of the dependent variable. By looking at the R2 value, one can assess whether the regression equation is good enough to be used. The higher the coefficient, the better the regression

equation because this implies that the independent variables chosen to determine the dependent variable were chosen correctly.

RESULTS AND DISCUSSION

RESULTS

The ratio of regional autonomy management in Makassar City is fluctuating, with an average ratio of 65.25 percent. The ratio of regional autonomy management in Makassar City has been participatory in managing regional autonomy because, in the past 11 years, it has been greater than 60 percent. This is because the original regional income (PAD) of the government obtained is sufficient to balance the funds obtained from the central government, even though the balancing funds are larger, which indicates that the central government is able to carry out regional autonomy affairs.

Table 2. Results of the Calculation of the Independent Variable Ratio

Year	RKKD (%)	REPAD (%)	REB (%)	Lesson Plan (%)
2013	53.35	117.8	98.9	13.02
2014	58.39	120.0	99.1	10.22
2015	59.09	83.5	103.7	10.93
2016	48.77	74.5	92.4	16.75
2017	79.57	100.4	97.0	-3.81
2018	64.92	79.9	102.8	0.35
2019	70.21	79.0	96.8	6.49
2020	61.59	61.6	89.4	-10.31
2021	66.38	67.6	95.9	-1.14
2022	77.58	70.0	99.0	8.40
2023	77.95	66.4	111.3	11.41
2024	70.45	67.4	101.5	12.46
Average	65.25	83.71	98.8	5.66

The level of effectiveness of management finance areas in Makassar City is considered fluctuating, with an average ratio of 83.7 percent. On average, the ratio of effectiveness finance areas in Makassar City is still including the category Enough effective in do management of finance areas, because it is at a ratio of 80 to 90 percent. This is caused by Because fact that income government obtained more income from the budget income that had been set previously.

Makassar City is categorized as less efficient to inefficient due to an imbalance between spending and revenue realization, where spending tends to be higher than revenue. Annual fluctuations occur due to fiscal policies such as budget cuts or changes in the revenue-expenditure structure. The ratio averages 98.8 percent. On average, the regional financial efficiency ratio in Makassar City is still considered inefficient in managing regional finances, ranging from 90 to 100 percent. This is due to higher government spending compared to regional revenue.

The highest growth rate was 16.79 percent in 2016, while the lowest growth rate was -10.31 percent in 2020. The average growth rate was 5.66 percent, which is considered moderate. This indicates that regional government performance has begun to improve in the 2013-2024 fiscal years, although fluctuations persist. This is due to general issues related to suboptimal tax and levy revenues due to the COVID-19 pandemic.

Multiple Linear Regression Test

Table 4. Multiple Linear Regression Test Results

	Coefficient	Std. Error	t	Sig.
(Content)	119881.285	58171.794	2,061	.078
Ratio Independence	1325,762	406,385	3,262	.014
Ratio Effectiveness	-761,992	165,130	-4,614	.002
Efficiency Ratio	-348,061	697,294	-.499	.633
Growth Ratio	459,674	463,640	.991	.354

Thus, the regression equation obtained is as follows:

Y = 119881.285 + 1325.762X1 - 761.992X2 – 348.061X3 + 459.674X4 .....(2)

Where Y is economic growth, while X1 is the Regional Spatial Independence Ratio, X2 is the PAD Effectiveness Ratio, X3 is the Spending Efficiency Ratio, and X4 is the Revenue Growth Ratio.

From the following equation, several things can be analyzed, including: The constant value of 119881.285 shows that if there are no variables for the regional financial independence ratio, PAD effectiveness ratio, spending efficiency ratio, and income growth ratio, then economic growth is worth 119881.285.

The coefficient value of the regional financial independence ratio of 1325.762 shows that if the variable value shows that if the value of other independent variables remains constant and the regional financial independence ratio (X1) increases by 1%, then economic growth increases by 1325.762.

The coefficient value of the PAD effectiveness ratio of -761.992 indicates that if the value of other independent variables remains constant and the PAD effectiveness ratio (X2) increases by 1%, then economic growth decreases by 761.992.

The coefficient value of the spending efficiency ratio of -348.061 indicates that if the value of other independent variables remains constant and the spending efficiency ratio (X3) increases by 1%, then economic growth decreases by 348.061.

The coefficient value of the income growth ratio of 459,674 shows that if the variable value shows that if the value of other independent variables is constant and the income growth ratio (X4) increases by 1%, then economic growth increases by 459,674.

Table 5. Normality Test Results

		Unstandardized Residual
N		12
Normal Parameters [a,b]	Mean	.000000
	Standard Deviation	8061.253441
Most Extreme Differences	Absolute	.124
	Positive	.124
	Negative	-.106
Test Statistics		.124
Asymp. Sig. (2-Tailed)		.200 [c,d]

The results of Table 5 provide the residuals of the influence model. Variables Ratio Regional Independence (X1), Ratio PAD Effectiveness (X2), Spending Efficiency Ratio (X3), and Growth Ratio (X4) against the GRDP variable (Y) are normally

distributed with a value of 0.200. Sig indicates this. (2-tailed), which is bigger than 0.05 or 0.200 > 0.05, therefore that is this data is already normally distributed or normality, then the model that has been made worthy For analyzed more analysis.

Table 6. Multicollinearity Test Results

	Collinearity Statistics	
	Tolerance	**VIF**
(Content)		
Ratio Independence	.572	1,748
Ratio Effectiveness	.859	1,164
Efficiency Ratio	.600	1,667
Growth Ratio	.652	1,533

The results of the multicollinearity test in Table 6 show that the VIF values of variables Ratio Regional Independence (X1), Ratio PAD Effectiveness (X2), Spending Efficiency Ratio (X3), and Growth Ratio (X4) are higher small of 10, where X1 is 1,748, X2 is 1,164, X3 is 1,667, and X4 is 1,533. This shows that no multicollinearity happens in the variables.

Table 7. Autocorrelation Test Results

n (number sample)	k (number of variables free)	dU value	dL value	Value d	Information
12	4	2.1766	0.5120	1,505	Not Producing a Definite Conclusion

The Durbin-Watson value test listed in the output of Table 7 is 1.505. The d value is Durbin-Watson, with the results statistic 1.505, value dU and dL are obtained from the table Durbin-Watson. Because this study uses a sample size of 12 (n=12) and a total of 4 independent variables (k=4), the dL table value is 0.5120, and the dU table value is 2.1766. Based on the decision making in Figure 1, if dL < d < dU, the null hypothesis states that there is no positive correlation. This means 0.5120 < 1.505 < 2.1766; the test decision is inconclusive, or there is no decision.

Heteroscedasticity Test Results

Based on the interpretation results, there are no symptoms of heteroscedasticity because there is no clear pattern, such as data points scattered above and below or around the number 0 on the y-axis. This means that H0 is accepted and H1 is rejected.

Table 8. Results of the t-statistic test

Variables	t- statistic	t- table	Sig.	Information
X1	3,262	2,179	0.014	Significant
X2	-4,614	2,179	0.002	Significant
X3	-.499	2,179	0.633	Not Significant
X4	.991	2,179	0.354	Not Significant

Based on Table 8, the Regional Independence Ratio (X1) variable has a significance value (Sig) <α, namely 0.014 <0.05. Therefore, the results obtained t

statistic > t table (3.262 > 2.179). Therefore, it can be concluded that the Regional Independence Ratio (X1) variable partially has a significant influence on the GRDP (Y) variable, meaning H0 is rejected, and H1 is accepted.

In Table 8, the PAD Effectiveness Ratio (X2) variable has a significance value (Sig) <α, namely 0.002 <0.05. Therefore, the results obtained t statistic > t table (-4.614 > -2.179). Therefore, it can be concluded that the PAD Effectiveness Ratio (X2) variable partially has a significant influence on the GRDP (Y) variable, meaning H0 is rejected, and H1 is accepted.

In Table 8, the Expenditure Efficiency Ratio (X3) variable has a significance value (Sig) > α, namely 0.633 > 0.05. Therefore, the calculated t statistic is > t table (-0.499 <-2.179). Therefore, it can be concluded that the Expenditure Efficiency Ratio (X3) variable partially has no significant effect on the GRDP (Y) variable, meaning H0 is accepted, and H1 is rejected.

Furthermore, in Table 8, the Growth Ratio (X4) variable has a significance value (Sig) > α, namely 0.354 > 0.05. Therefore, the calculated t statistic is > t table (0.991 < 2.179). Therefore, it can be concluded that the Growth Ratio (X4) variable partially has no significant effect on the GRDP (Y) variable, meaning H0 is accepted, and H1 is rejected.

Table 9. Simultaneous F-Test Results

Variables	F- statistic	F- table	Sig.	Information
X1, X2, X3, X4	12,671	4,347	0.003	Significant

Based on Table 9, it is known that the Sig. Value is 0.003. Because the Sig. Value is 0.003 < 0.05, then according to the basis for decision making in the F test, it can be concluded that the hypothesis is rejected or in other words the variables of Regional Independence Ratio (X1), PAD Effectiveness Ratio (X2), Expenditure Efficiency Ratio (X3), and Growth Ratio (X4) simultaneously influence the GRDP variable (Y) or it can be interpreted that H0 is rejected and H1 is accepted. The comparison of F table and F statistic shows that F statistic> F table (12,671> 4,347), meaning that if F statistic is greater than F table, then the null hypothesis is rejected and the model is considered significant, meaning that the independent variable influences the dependent variable.

Table 10. Results of the Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.937 [a]	.879	.809	10105.316

Based on Table 10 can be known that the Adjusted R-Square value is 0.809. Which means that the variation of ups and downs GRDP variable (Y) can be explained by the variables Ratio Regional Independence (X1), Ratio PAD Effectiveness (X2), Spending Efficiency Ratio (X3), and Growth Ratio (X4), were 80.9%. Meanwhile, the remaining 19.1% is explained by variables that are not included in the study.

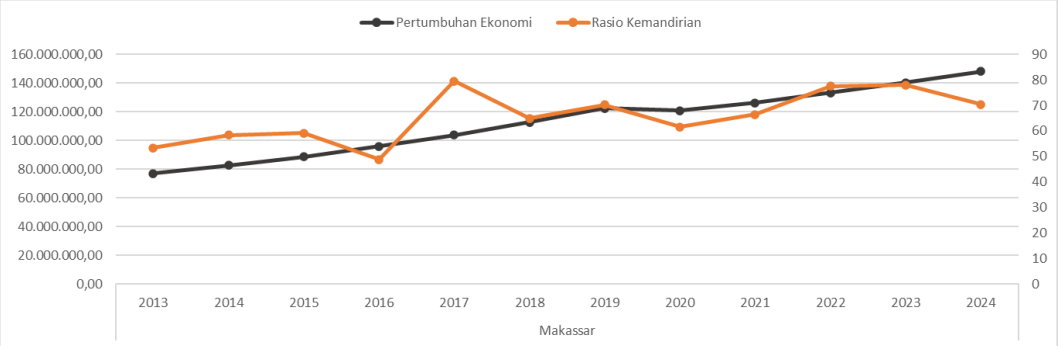
DISCUSSION

The Influence of the Regional Financial Independence Ratio on Economic Growth

Based on the results of data analysis conducted using ratio calculations and multiple linear regression tests, there is a positive and significant influence between the regional financial independence ratio and economic growth in Makassar City. The

calculation of the regional financial independence ratio indicates a participatory level, but this does not yet indicate that the Makassar City government has been able to maximize its PAD (Regional Original Revenue).

Figure 2. Economic Growth Trends and Independence Ratio of Makassar City 2013-2024



In fact, revenue or assistance from *external parties*, specifically from the provincial and central governments, consistently increases and exceeds the Regional Original Revenue (PAD). The high level of balancing funds indicates the Makassar City Government's dependence on the central government. If PAD is lower than the balancing funds, the independence ratio will be low. High transfer funds negatively impact regional financial performance. The greater the transfer from the center, the greater the region's dependence, ultimately degrading financial performance.

The high level of balancing funds provided by the central government to regions can create a regional fiscal gap that cannot be filled by Regional Original Income (PAD). In the context of Makassar City, although the central government intends to alleviate this by balancing funds, the PAD contribution is still insufficient to maintain independence. A comparison of the 2016 Regional Budget (APBD) even shows that the contribution of balancing funds (56%) is greater than PAD (27%), indicating that the Regional Original Income (PAD) component is unable to meet most of the regional spending needs. In line with this, the general allocation fund is budgeted by the central government each year at 26% for all provinces and cities in Indonesia, as well as special allocation funds, namely those that are included in the priority scale in the field of public services.

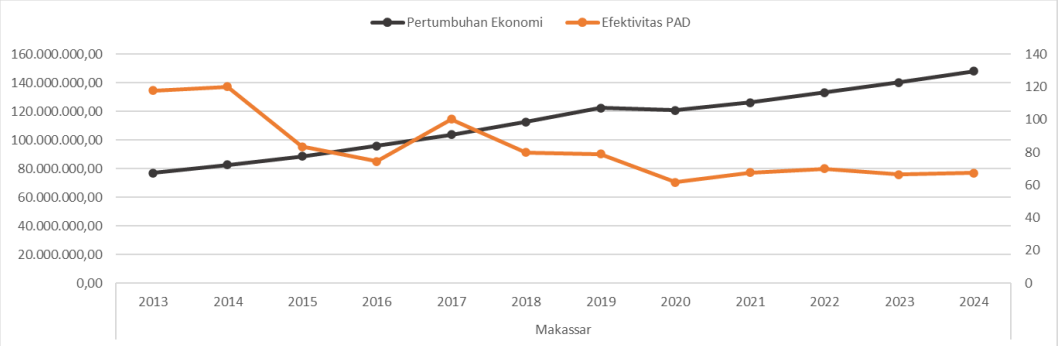
This research is supported by research conducted (Azhari et al., 2020), Where the results of the research show that the independence ratio has a significant and positive influence on economic growth, the positive influence provided by regional independence on economic growth is none other than the large realization of PAD in a region, which makes the region more independent and encourages increased community welfare. Other research conducted (Irnawati et al., 2023)Also shows the results of the regional financial independence ratio of the Makassar City government from 2017-2021, namely 59.25% with moderate criteria.

The Influence of PAD Effectiveness Ratio on Economic Growth

Based on the results of data analysis using multiple linear regression tests, there is a positive influence of the PAD effectiveness ratio on economic growth in Makassar City. The influence of this PAD effectiveness ratio is seen from the Regional Original Income figure, which is able to increase the budget set in the previous year

from 2013 to 2024. Seeing the trend of PAD effectiveness, which tends to decrease every year, indicates an income gap that occurs when compared to economic growth in Makassar City.

Figure 3. Economic Growth Trends and Effectiveness of Local Original Income (PAD) of Makassar City 2013-2024



The revenue set by the Makassar City Government is a driving factor for a well-planned economy. In this case, the government is still said to have not maximized its budget allocation effectively. Because the realization of PAD figures from 2018 to 2024 is very low compared to the established budget, this means that Makassar City has several obstacles or problems in managing its revenue and must continue to optimize existing potential. When institutional capabilities are weak, several problems arise, such as ineffective budget planning, allocation of funds that do not match priorities, and a lack of accountability and transparency in managing space.

Increasing the effectiveness of local revenue (PAD) makes local governments less dependent on transfer funds from the central government. This independence provides greater flexibility for city governments to finance development programs focused on local needs, thereby accelerating economic growth. Furthermore, if effective PAD is often allocated more to operational expenditures than capital expenditures, its impact on economic growth will be limited. Allocating capital expenditures to infrastructure development has a far greater impact on economic growth.

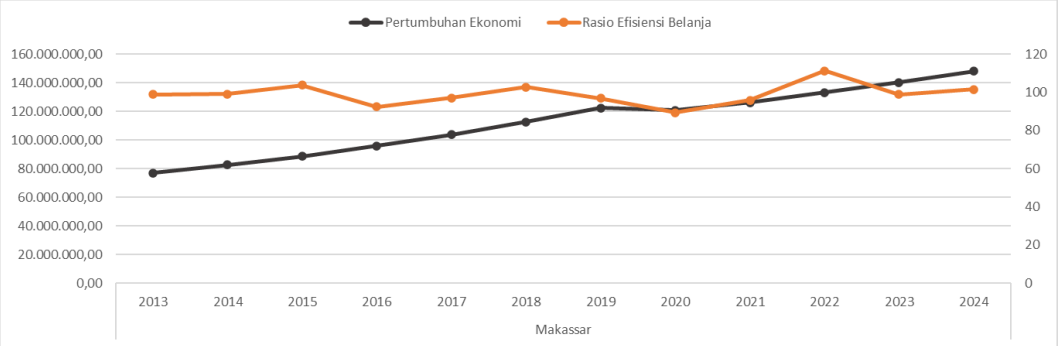
This research is in line with the research conducted (Irnawati et al., 2023) This shows that the regional financial effectiveness ratio of the Makassar City government from 2017-2021 is 82.53% with less effective criteria. In contrast to the research conducted by (Rachman, 2020), which states that there is a positive and significant influence of the PAD effectiveness ratio on the economic growth of South Tangerang City because the realization of income exceeds the set target.

The Effect of the Spending Efficiency Ratio on Economic Growth

Based on the results of data analysis using multiple linear regression tests, it is stated that there is no partial or negative influence between the expenditure efficiency ratio and the economic growth of Makassar City. This negative influence is seen in the Makassar City budget, which often experiences deficits. It can be said that the performance of the Makassar City government in generating revenue is still poor in reducing the amount of regional expenditure. This is because the average figure for regional expenditure realization exceeds or is equal to the realization of regional income. It can be said that the performance of the Makassar City government in

generating revenue is still poor in reducing the amount of regional expenditure. This is because the average figure for regional expenditure realization exceeds or is equal to the realization of regional income.

Figure 4. Economic Growth Trends and Spending Efficiency Ratios of Makassar City 2013-2024



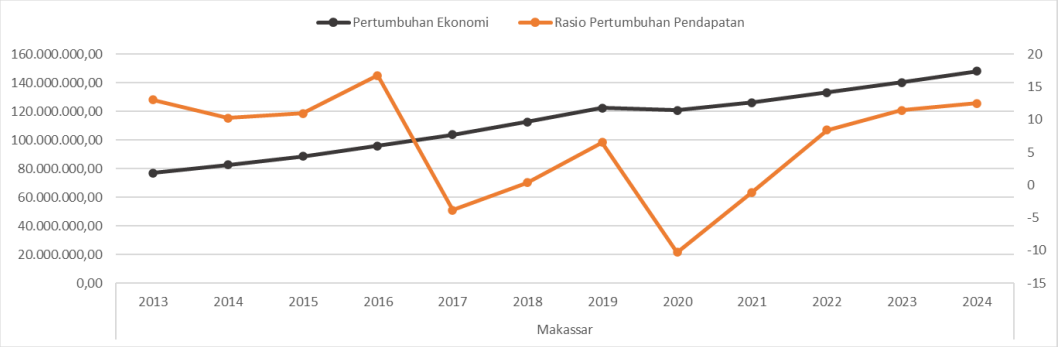
Operating expenditures often dominate, while capital expenditures are often realized at a lower level than targeted. For example, in 2023, capital expenditures of IDR 1,130,808,481,698.00 were only realized at 25% of total regional expenditures. Meanwhile, the dominance of operating expenditures, amounting to IDR 3,374,420,647,297.40, reaching 74%, triggers high fixed costs (personnel, routine maintenance, etc.), so that when revenues do not accumulate as expected, fiscal space becomes limited. Employee expenditures, maintenance, and routine goods and services expenditures are mandatory and cannot be postponed, thus dominating the expenditure component. Routine costs are difficult to reduce; as a result, when revenues are low, financing must still be carried out, so that expenditure realization remains high. This shows that regional governments are still dependent on central transfers to pay for their operational costs.

This research is supported by research that found (Hidaya et al., 2023)Regional Financial Efficiency had a negative and insignificant effect on Economic Growth in South Sulawesi Province from 2008 to 2022. Other research also showed a negative effect on (Saifuddin, 2021)Regional financial management, with the South Tangerang City efficiency ratio variable having a negative and significant effect on economic growth.

The Influence of Income Growth Ratio on Economic Growth

Based on the results of data analysis using ratio calculations and multiple linear regression tests, it is stated that there is no partial or negative influence between the income growth ratio and the economic growth of Makassar City. The results of calculations on the income growth ratio show that the average value is 5.66% in Makassar City, with a moderate category. The income figures fluctuate every year during the period 2013 - 2024. However, it can be said that regional income growth towards the economic growth of Makassar City is still financially weak, such as obstacles in management, distribution of taxes and spending, PAD growth tends to be inelastic, more expenditure allocations are absorbed for routine expenditures (employee expenditures, goods and services compared to capital expenditures, as well as dependence on transfer funds so that the income growth ratio is unable to be a driver of economic growth in Makassar City.

Figure 5. Economic Growth Trends and Income Growth Ratios of Makassar City 2013-2024



In line with the research conducted (Fakhruddin et al., 2024) The research results show that neither the degree of decentralization nor the growth of local revenue (PAD) partially impacted the economic growth of Bengkulis Regency. The research (Irnawati et al., 2023)Also showed that the Makassar City regional government experienced negative revenue growth between 2017 and 2021, meaning regional revenue was lower than the inflation rate. Consequently, the government implemented strict spending efficiency measures.

CONCLUSION

This study shows that the regional financial independence ratio and the PAD effectiveness ratio have a positive and significant effect on the economic growth of Makassar City, indicating that increasing the region's ability to finance its own needs and the effectiveness of PAD management can drive local economic growth. Conversely, the expenditure efficiency ratio and revenue growth ratio do not have a significant effect, even tending to be negative, indicating that inefficient expenditure allocation and inelastic revenue growth have not been able to drive the regional economy.

Provides empirical evidence that fiscal decentralization supported by fiscal effectiveness and independence can strengthen regional economic growth. The results of this study also demonstrate the need for reforms in regional expenditure management and optimization of revenue sources. This research can serve as a basis for further analysis related to strategies for increasing regional original revenue (PAD), spending efficiency, and fiscal resilience. It can also be expanded to other regions or with additional variables such as capital expenditure and regional investment levels, or other factors that may support the research.

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