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The Effect of Regional Original Revenue on Regional Financial Performance: Test the Role of Economic Growth as Moderation (Study on Regency / City in Bali Province)

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Abstract

Regional financial performance describes the measure of the success of local governments in managing regional finances effectively and efficiently to meet regional needs and improve public services. This study aims to determine the effect of local revenue on local financial performance with economic growth as a moderator. The type of data used in this study is secondary data obtained through the official website Badan Pusat Statistik (BPS) and Direktorat Jenderal Perimbangan Keuangan (DJPK). The population in this study were all regencies / cities in Bali Province for the 2018-2023 period, in total 9 regencies / cities. The method of determining the sample in this study is the sensus method with saturated sampling technique, using the entire population as a research sample so that the sample used in this study for 6 years with a total of 54 samples. The analysis technique used is descriptive analysis and inferential analysis (Moderate Regression Analysis). Based on the test results, it was found that local revenue has a positive and significant effect on regional financial performance, and economic growth can moderate the effect of local revenue on regional financial performance.

Keyword: Regional Financial Performance, Regional Original Revenue, Economic Growth

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I. Introduction

Introduction

Regional autonomy in Indonesia, enacted through decentralization policies, empowers local governments to manage their affairs and serve community interests within the framework of the Unitary State of the Republic of Indonesia, as mandated by Law No. 23 of 2014 on Regional Government. This framework aims to foster local economic growth, improve public services, and reduce dependency on central government funding. However, effective financial management remains a critical challenge, serving as a key indicator of successful regional governance (Yuliansyah et al., 2020). The Minister of Home Affairs Regulation No. 77 of 2020 emphasizes that regional financial management must be orderly, compliant with regulations, efficient, transparent, and accountable, prioritizing fairness and societal benefits. This process involves managing revenues and expenditures to support local development programs, ensuring both economic and social progress.

Regional financial performance reflects a local government's ability to manage fiscal resources effectively to meet regional needs, such as infrastructure development and public service provision, without excessive reliance on central transfers (Insani et al., 2023). Measuring this performance is essential for assessing accountability in implementing autonomy principles. According to Mahmudi (2016), financial performance can be evaluated using ratios derived from the Regional Revenue and Expenditure Budget (APBD), a critical fiscal policy tool that governs revenue, expenditure, and financing plans. Among these, the financial independence ratio, which compares Local Own-Source Revenue (PAD) to total transfers, is a primary metric. Halim (2012) classifies this ratio into four categories: very low (0–25%, central control), low (>25–50%, consultative), medium (>50–75%, participatory), and high (>75–100%, independent). Regions with higher PAD demonstrate greater fiscal autonomy, while those dependent on transfers exhibit limited independence, a common issue across Indonesian regions, including Bali Province.

Bali, a globally recognized tourism hub, significantly contributes to Indonesia's foreign exchange through its tourism-driven economy (Yanti et al., 2021). Tourism forms the backbone of Bali's revenue, particularly PAD, which includes local taxes, retributions, and other legitimate sources as defined by Law No. 1 of 2022 on Financial Relations between the Central and Regional Governments. However, fiscal disparities persist across Bali's nine regencies and cities, exacerbated by the COVID-19 pandemic, which disrupted tourism and reduced PAD, impacting financial performance. For instance, Badung Regency achieved a financial independence ratio of 546.79% from 2018 to 2023, reflecting robust PAD from tourism, while Bangli, Karangasem, and Jembrana recorded ratios below 25%, indicating heavy reliance on transfers. These disparities highlight the need to enhance PAD to strengthen fiscal autonomy, particularly in less tourism-dependent regions (Sari & Mustanda, 2019).

PAD's role in bolstering financial performance is well-documented, as effective revenue management enhances fiscal capacity and supports regional development (Wijaya & Candraningrat, 2021). However, PAD's impact is influenced by broader economic conditions, with economic growth serving as a pivotal factor in shaping fiscal outcomes (Hanifah & Sulaeman, 2022). Economic growth, measured by the annual percentage increase in Gross Regional Domestic Product (GRDP) at constant prices, reflects a region's productivity and economic vitality (Badan Pusat Statistik, 2024). Strong growth fosters job creation, higher incomes, and improved living standards, potentially boosting PAD through increased economic activity (Kartika & Drajat, 2020). In Bali, economic growth fluctuated significantly from 2018 to 2023, with a sharp decline in 2020 (e.g., -16.55% in Badung, -9.44% in Denpasar) due to pandemic-induced tourism disruptions, followed by a recovery peaking at 11.29% in Badung by 2023. These fluctuations underscore the interplay between economic conditions and fiscal performance.

Economic growth can moderate the relationship between PAD and financial performance, either amplifying or diminishing PAD's effectiveness. In high-growth periods, regions may rely less on PAD due to access to alternative funding, such as central transfers, while low growth increases dependence on local revenues, affecting fiscal autonomy (Saprudin et al., 2023). This moderating role is particularly relevant in Bali, where tourism-driven growth creates unique fiscal dynamics. Prior studies, such as those by Suambara and Darmayanti (2020), Maharani et al. (2024), and Fauziah and Zuwardi (2024), confirm PAD's positive impact on financial performance, yet findings by Putri and Darmayanti (2019) and Niswani et al. (2022) suggest negative effects in certain contexts, possibly due to inefficiencies in revenue utilization. Additionally, Wulandari et al. (2022) highlight economic growth's direct positive effect on financial performance, but its moderating role remains underexplored, presenting a research gap.

This study addresses this gap by examining two research questions: (1) How does PAD influence regional financial performance in Bali's regencies and cities? (2) Does economic growth moderate this relationship? The objectives are to assess PAD's direct effect on financial performance and evaluate economic growth's moderating influence. Theoretically, the study contributes to the literature on regional finance by providing empirical evidence on PAD's role and the moderating effect of economic growth, particularly in a tourism-dependent context. Practically, it offers insights for Bali's local governments to optimize PAD and align fiscal strategies with economic conditions, enhancing financial performance and resilience against external shocks like pandemics.

The study's significance lies in its focus on Bali, where tourism-driven disparities and economic volatility necessitate tailored fiscal strategies. By integrating economic growth as a moderator, it advances understanding of how external economic factors shape fiscal outcomes, addressing inconsistencies in prior research and informing policy for sustainable financial management.

II. Research Methodology

This study employed a quantitative associative research design to examine the relationships among variables. Quantitative approaches are suitable for testing hypotheses through numerical data analysis and statistical methods, while associative designs aim to identify and verify connections between two or more variables (Sugiyono, 2020). This design was selected to investigate the influence of local own-source revenue (PAD) on regional financial performance, with economic growth as a moderating variable, in the context of Bali Province's regencies and cities.

The research location encompassed all regencies and cities in Bali Province, Indonesia, chosen due to the region's heavy reliance on tourism, which influences fiscal capacities, and the observed disparities in financial independence exacerbated by the COVID-19 pandemic. The study object focused on regional financial performance from 2018 to 2023, measured using the financial independence ratio derived from Regional Revenue and Expenditure Budget (APBD) reports.

The variables included one independent variable (PAD, denoted as X1), one dependent variable (regional financial performance, denoted as Y), and one moderating variable (economic growth, denoted as M). Independent variables are those that cause or influence changes in dependent variables, dependent variables are outcomes affected by independents, and moderating variables strengthen or weaken the relationship between independents and dependents (Sugiyono, 2020). Regional financial performance (Y) was operationalized as the financial independence ratio, calculated as (PAD / Total Central and Provincial Transfers) × 100%, categorized into four levels: very low (0-25%), low (>25-50%), medium (>50-75%), and high (>75-100%) (Halim, 2012). PAD (X1) was measured as the realized annual receipts in million rupiah from local taxes, retributions, separated regional asset management results, and other legitimate sources, as reported in APBD realization statements. Economic growth (M) was quantified as the annual percentage growth rate of Gross Regional Domestic Product (GRDP) at constant prices.

The population consisted of all nine regencies and cities in Bali Province (Jembrana, Tabanan, Badung, Gianyar, Klungkung, Bangli, Karangasem, Buleleng, and Denpasar City) over the 2018-2023 period. A census method with saturated sampling was applied, utilizing the entire population as the sample, resulting in 54 observations (9 regions × 6 years) (Sugiyono, 2020). This approach ensured comprehensive coverage without sampling bias, given the manageable population size.

Data utilized were quantitative secondary data, comprising numerical figures amenable to statistical processing, such as PAD receipts, transfer funds, and GRDP growth rates. Sources included official publications from the Central Bureau of Statistics (BPS) via www.bali.bps.go.id and the Directorate General of Fiscal Balance (DJPK) under the Ministry of Finance. Data collection involved non-participant observation, where the researcher acted as an independent observer reviewing documented APBD realization reports and economic statistics without direct involvement (Sugiyono, 2020).

Data analysis comprised descriptive and inferential statistics. Descriptive analysis summarized variables using measures like mean, minimum, maximum, and standard deviation to provide an overview (Wirawan, 2016). Inferential analysis employed Moderated Regression Analysis (MRA) to test the moderating effect, using the equation: $Y= \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 X_2 + e$, where α is the constant, β1-β3 are regression coefficients, and e is the error term. MRA assesses whether the moderator influences the independent-dependent relationship (Utama, 2016).

Prior to MRA, classical assumption tests were conducted. Normality was tested via the Kolmogorov-Smirnov statistic, with residuals considered normal if the asymptotic significance (2-tailed) exceeded 0.05; initial non-normality was addressed through data transformation and outlier removal, reducing observations to 53. Multicollinearity was evaluated using Variance Inflation Factors (VIF), with values below 10 indicating no issues; high VIF in interaction terms was disregarded as inherent to MRA. Autocorrelation was checked with the Durbin-Watson test, initially showing positive autocorrelation (DW = 2.460), resolved via Cochrane-Orcutt transformation (final DW = 1.889, within du < DW < 4-du). Heteroscedasticity was assessed using the Glejser test, regressing independents on absolute residuals; non-significant coefficients (>0.05) confirmed homoscedasticity.

Model feasibility was verified with the F-test, where significance <0.05 indicated a fit model. Hypothesis testing used t-tests, accepting hypotheses if significance ≤0.05. The coefficient of determination (Adjusted R^2) measured the proportion of variance in Y explained by the model. All analyses were performed using statistical software, ensuring robustness and reliability in interpreting results.

III. Results and Discussion

3.1 Results

Table 1 Descriptive Statistical Test Results

	N	*Minimum*	*Maximum*	*Mean*	*Hours of deviation*
Regional Financial Performance	53	13,52	695,36	83,8031	145,57643
PAD	53	104.330.000	4.835.190.000	702.580.754	1.005.049.088
Economic Growth	53	-16,55	9,97	1,7389	5,23144
Valid N (listwise)	53				

The descriptive statistics provide an overview of the variables based on 53 observations after outlier removal and data transformation to ensure normality. Regional financial performance, measured by the financial independence ratio, ranged from a minimum of 13.52% to a maximum of 695.36%, with a mean of 83.80% and a standard deviation of 145.58%. This high standard deviation indicates substantial variability and disparities in financial independence across Bali's regencies and cities. Local own-source revenue (PAD) varied from 104.33 million rupiah to 4.83 billion rupiah, with a mean of 702.58 million rupiah and a standard deviation of 1 billion rupiah, reflecting significant fiscal inequalities where some regions, like Badung, dominate PAD contributions. Economic growth showed a minimum of -16.55% and a maximum of 9.97%, with a mean of 1.74% and a standard deviation of 5.23%, highlighting periods of contraction (e.g., during the 2020 COVID-19 impact) and subsequent recovery.

Table 2 Moderated *Regression Analysis (MRA) Test Results*

Model		*Unstandardized Coefficients*	*Standardized Coefficients*			
		B	*Std. Error*	*Beta*	*t*	*Itself.*
1	(Constant)	-6.624,154	1.862,499		-3,557	0,001
	Regional Original Revenue	339,304	91,371	2,168	3,713	0,001
	Economic Growth	1.599,978	699,809	3,283	2,286	0,027
	Interaction X1*M	-81,144	34,405	-3,465	-2,359	0,022

Table 1 shows the results of the moderation regression analysis test so that the regression equation is obtained as follows.

Y= α + $\beta_1 X_1$+ $\beta_2 X_2$+ $\beta_3 X_1 X_2$+e.

Y= -6624.154 + 339.304X_1 + 1599.978X_2 - 81.144 $X_1 X_2$ + e

The moderated regression analysis (MRA) yielded the following equation: Y= -6624.154 + 339.304X_1 + 1599.978X_2 - 81.144 $X_1 X_2$ + e, where Y is regional financial performance, X1 is PAD, M is economic growth, and e is the error term. The positive coefficient for PAD (339.304) suggests a direct positive relationship: a one-unit increase in PAD leads to a 339.304-unit increase in financial performance, assuming other variables are constant. The positive coefficient for economic growth (1599.978) indicates that higher growth similarly enhances performance. However, the negative interaction term (-81.144) implies that economic growth moderates the PAD-performance relationship by weakening it: as the interaction increases by one unit, performance decreases by 81.144 units.

Classical assumption tests confirmed the model's validity. The Kolmogorov-Smirnov test initially showed non-normality (Asymp. Sig. = 0.009 < 0.05), but after transformation and outlier removal, residuals were normally distributed (Asymp. Sig. = 0.089 > 0.05). Multicollinearity was assessed via variance inflation factors (VIF); while values exceeded 10 for interaction terms, this was disregarded as inherent to MRA models. Autocorrelation was detected initially (Durbin-Watson = 2.460, indicating positive autocorrelation), but resolved using Cochrane-Orcutt transformation (final Durbin-Watson = 1.889, within the no-autocorrelation range of 1.595 < DW < 2.405). The Glejser test for heteroscedasticity showed non-significant coefficients (>0.05) for all variables, confirming homoscedasticity.

The model's overall fit was supported by the F-test, with F = 40.144 and significance = 0.000 (<0.05), indicating that PAD, economic growth, and their interaction collectively explain regional financial performance. The adjusted R^2 value of 0.693 suggests that 69.3% of the variance in financial performance is accounted for by the model, with the remaining 30.7% attributable to external factors.

Hypothesis testing via t-tests revealed significant effects. For H1 (PAD positively affects regional financial performance), the coefficient was 339.304, t = 3.713, and significance = 0.001 (<0.05), supporting a positive and significant influence. For H2 (economic growth moderates PAD's effect on performance), the interaction coefficient was -81.144, t = -2.359, and significance = 0.022 (<0.05), confirming moderation. The negative sign indicates that economic growth weakens the positive relationship between PAD and performance.

These results underscore PAD's role in enhancing financial independence in Bali, tempered by economic growth dynamics, particularly in a tourism-dependent context affected by external shocks like the pandemic.

3.2 Discussion

The findings of this study confirm that Local Own-Source Revenue (PAD) exerts a positive and significant influence on regional financial performance in the regencies and cities of Bali Province over the period of 2018–2023. Additionally, economic growth acts as a moderating variable, weakening the relationship between PAD and regional financial performance. These results align with prior research while also offering new insights into the role of economic growth as a moderator in a tourism-driven economy like Bali’s, providing both theoretical and practical implications for regional financial management.

The positive and significant effect of PAD on regional financial performance, as evidenced by the regression coefficient of 339.304 (t = 3.713, p = 0.001 < 0.05), indicates that higher PAD levels enhance the financial independence of local governments. This finding is consistent with the theoretical framework that PAD reflects a region’s capacity to generate revenue autonomously, thereby reducing reliance on central government transfers and strengthening fiscal autonomy (Sari & Mustanda, 2019). According to Law No. 1 of 2022 on Financial Relations between the Central and Regional Governments, PAD encompasses revenues from local taxes, retributions, separated regional asset management, and other legitimate sources. When effectively managed, these revenues enable local governments to finance governance activities, infrastructure development, and public services, which are critical indicators of financial performance (Wijaya & Candraningrat, 2021).

The results corroborate previous studies, such as those by Suambara and Darmayanti (2020), Maharani et al. (2024), Fauziah and Zuwardi (2024), and Syaukani et al. (2024), which found that PAD positively impacts regional financial performance by enhancing fiscal capacity and supporting regional autonomy. In Bali, regions like Badung Regency, with PAD reaching 6 billion rupiah in 2023, exemplify how robust revenue generation—primarily driven by tourism-related taxes and retributions—bolsters financial independence, as reflected in its exceptionally high financial independence ratio of 546.79%. Conversely, regions like Bangli, Karangasem, and Jembrana, with PAD significantly lower and financial independence ratios below 25%, demonstrate heavy reliance on central transfers, underscoring fiscal disparities within the province. These disparities align with Yanti et al. (2021), who noted that tourism-dominated regions in Bali possess stronger fiscal capacities, while others face challenges in tapping local revenue potentials due to differing economic structures, such as reliance on agriculture.

However, the positive effect of PAD is not without contradictions in the literature. Studies by Putri and Darmayanti (2019), Niswani et al. (2022), and Anggraini and Hidayat (2023) reported a negative influence of PAD on financial performance, suggesting that some regions struggle to translate PAD into effective financial outcomes due to inefficiencies or limited capacity to manage local revenue sources. This discrepancy may stem from regional variations in administrative capabilities or economic conditions, highlighting the need for context-specific strategies in Bali, where tourism-driven PAD in regions like Badung and Denpasar contrasts with the lower revenue-generating capacity of less tourism-dependent areas.

The second key finding is that economic growth moderates the relationship between PAD and regional financial performance, as indicated by the significant negative interaction coefficient of -81.144 ($t = -2.359$, $p = 0.022 < 0.05$). This suggests that while PAD positively affects financial performance, high economic growth weakens this relationship. In regions with strong economic growth, the reliance on PAD for financial performance diminishes, as alternative funding sources, such as central government transfers, play a larger role in supporting development activities. This finding is particularly relevant in Bali, where economic growth is closely tied to tourism. The sharp economic contraction in 2020 (-16.55% in Badung, -9.44% in Denpasar) due to the COVID-19 pandemic significantly reduced PAD from tourism-related activities, underscoring the vulnerability of tourism-dependent economies (Badan Pusat Statistik, 2024). However, the recovery from 2021 to 2023, with Badung achieving 11.29% growth, indicates that economic rebounds can reduce dependence on PAD by diversifying funding sources, thus weakening its direct impact on financial performance.

This moderating effect aligns with Hanifah and Sulaeman (2022), who argue that high economic growth enhances a region's capacity to generate PAD through expanded economic activities and higher per capita incomes, but it may also reduce the relative importance of PAD when external funds, such as transfers, become available. In Bali, regions with high economic growth, like Badung, benefit from tourism-driven activities that increase tax and retribution revenues, yet their financial performance is less dependent on PAD alone due to substantial central transfers supporting post-pandemic recovery. This is supported by Jitmau et al. (2025), who note that in high-growth contexts, PAD's contribution to development may be overshadowed by other funding sources, limiting its role in enhancing financial performance.

The weakening effect of economic growth on the PAD-performance relationship can also be explained by the nature of PAD utilization. In high-growth scenarios, PAD is often allocated to routine expenditures rather than transformative development projects, reducing its impact on financial performance (Tias & Rochmatullah, 2023). For instance, increased tax burdens in high-growth regions may generate PAD but fail to translate into proportional improvements in infrastructure or services, thus diluting its effectiveness. This phenomenon is evident in Bali, where the tourism sector's recovery has driven economic growth but not necessarily optimized PAD's contribution to long-term financial independence.

The study's findings also highlight the role of economic growth as a dynamic external factor. According to Kartika and Drajat (2020), economic growth reflects increased productivity and community welfare, which should theoretically enhance PAD through expanded fiscal capacity. However, the negative moderation observed here suggests that in Bali, high economic growth may shift focus to external funding, reducing the strategic importance of PAD. This aligns with Wulandari et al. (2022) and Roberth and Indri (2024), who found that economic growth positively influences financial performance directly but may complicate PAD's role when acting as a moderator.

Theoretically, this study enriches the literature by confirming PAD's positive effect on financial performance while introducing economic growth as a significant moderating variable, a relatively underexplored aspect in prior studies. It supports the conceptual framework that regional autonomy, as mandated by Law No. 23 of 2014, relies on effective financial management, with PAD as a cornerstone of fiscal independence. The moderating role of economic growth adds nuance, suggesting that economic conditions shape the efficacy of revenue strategies, particularly in tourism-driven regions like Bali.

Practically, these findings have implications for policymakers in Bali's regencies and cities. To enhance financial performance, local governments should prioritize optimizing PAD through targeted strategies, such as improving tax collection efficiency, diversifying revenue sources beyond tourism, and enhancing the management of regional assets. For regions like Bangli and Karangasem, developing local economic potentials, such as agriculture or cultural tourism, could reduce reliance on central transfers. Additionally, policymakers must consider economic growth dynamics, as high growth may necessitate balanced reliance on PAD and external funds to sustain financial performance. The post-COVID recovery underscores the need for resilient revenue strategies to mitigate external shocks.

In conclusion, this study affirms that PAD significantly enhances regional financial performance in Bali, but its impact is moderated by economic growth, which weakens the relationship in high-growth contexts.

These insights contribute to understanding fiscal autonomy in tourism-dependent regions and provide actionable guidance for policymakers to strengthen financial management.

IV. Conclusion and Recommendations

A. Conclusion

This study investigates the influence of Local Own-Source Revenue (PAD) on regional financial performance in the regencies and cities of Bali Province from 2018 to 2023, with economic growth as a moderating variable. Based on the analysis and discussion, the following conclusions can be drawn:

1. **Positive Impact of PAD on Regional Financial Performance**: PAD exerts a positive and significant effect on regional financial performance, as evidenced by a regression coefficient of 339.304 ($t = 3.713$, $p = 0.001 < 0.05$). This indicates that an increase in PAD enhances the financial independence of local governments in Bali, supporting their ability to finance governance activities, infrastructure development, and public services without heavy reliance on central government transfers. The finding aligns with the notion that PAD is a critical indicator of fiscal autonomy, as stipulated in Law No. 1 of 2022 on Financial Relations between the Central and Regional Governments.
2. **Moderating Role of Economic Growth**: Economic growth moderates the relationship between PAD and regional financial performance, with a significant negative interaction coefficient of -81.144 ($t = -2.359$, $p = 0.022 < 0.05$). This suggests that while PAD positively influences financial performance, high economic growth weakens this relationship. In high-growth contexts, particularly in tourism-driven regions like Badung, the reliance on PAD diminishes as alternative funding sources, such as central transfers, play a larger role, reducing PAD's relative contribution to financial performance.

These findings highlight the critical role of PAD in fostering fiscal independence in Bali, tempered by economic growth dynamics that reflect the province's tourism-dependent economy and its vulnerability to external shocks, such as the COVID-19 pandemic.

B. Recommendations

Based on the conclusions, the following recommendations are proposed for stakeholders and future research:

1. **For Local Governments in Bali**:
   - **Optimize PAD Collection**: Local governments should enhance PAD through strategies tailored to local economic potentials. For tourism-driven regions like Badung and Denpasar, this involves improving the efficiency of tax and retribution collection from hotels, restaurants, and tourist attractions. For less tourism-dependent regions like Bangli and Karangasem, diversifying revenue sources through agriculture, cultural tourism, or small-scale industries could bolster PAD.
   - **Strengthen Fiscal Management**: Policymakers should focus on effective allocation of PAD to development projects rather than routine expenditures to maximize its impact on financial performance. This includes investing in infrastructure and public services that enhance long-term fiscal independence.
   - **Adapt to Economic Growth Dynamics**: Given the moderating effect of economic growth, local governments must balance reliance on PAD and external funds, especially during high-growth periods. Strategies should account for economic volatility, particularly in tourism-dependent regions, by building resilient revenue systems to mitigate shocks like pandemics.
2. **For Future Research**:
   - **Incorporate Additional Variables**: Future studies should explore other variables influencing regional financial performance, such as capital expenditure or balancing funds,

as mediating or moderating factors. This would provide a more comprehensive understanding of fiscal dynamics.

- **Expand Contextual Analysis**: Researchers are encouraged to examine the moderating role of economic growth in other regions with different economic structures to compare findings with Bali's tourism-driven context. This could reveal whether the weakening effect of economic growth on PAD's impact is unique to tourism-dependent economies.
- **Longitudinal and Comparative Studies**: Extending the study period or conducting comparative analyses across provinces could uncover long-term trends and regional variations in the PAD-performance relationship, enhancing the generalizability of findings.

These recommendations aim to support sustainable financial management in Bali's local governments and contribute to the academic discourse on regional fiscal autonomy.

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