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The Influence of Financial Performance on Economic Growth Through the Budget Effectiveness of Regional Government in East Java

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ABSTRACT

This study aims to test the independent variables of Autonomy, Liquidity Ratio and Solvency Ratio which are suspected of being able to influence the dependent variable of Economic Growth through the Intervening Variable of Budget Effectiveness. The data collection method uses the census method by taking all samples of 228 Financial Reports of Regency and City Governments throughout East Java Province during the 2017-2022 budget years. The Data Analysis Technique used in this study is a quantitative method with Linear Regression Analysis and Sobel Test using SPSS 27. The results of the study are that Autonomy and Liquidity Ratio have a positive and insignificant effect on Economic Growth partially. While the Solvency Ratio has a negative and insignificant effect on Economic Growth. Autonomy, Liquidity Ratio and Solvency Ratio have a positive and insignificant effect on Economic Growth through the intervening variable of budget effectiveness. This study contributes to proving the Stewardship Theory that the Regional Government will strive to serve and provide the best performance for the benefit of the wider community and is able to manage finances economically, effectively and efficiently to increase the production of community goods and services, GRDP and regional economic growth.
Keywords: Autonomy, Liquidity Ratio, Solvency Ratio, Budget Effectiveness, Economic Growth.

ABSTRAK

Penelitian ini bertujuan untuk menguji variabel independen Otonomi, Rasio Likuiditas dan Rasio Solvabilitas yang diduga bisa mempengaruhi variabel dependen Pertumbuhan Ekonomi melalui Variabel Intervening Efektivitas Anggaran. Metode pengumpulan data menggunakan metode sensus dengan mengambil seluruh sampel 228 Laporan Keuangan Pemerintah Kabupaten dan Pemerintah Kota di seluruh Provinsi Jawa Timur selama tahun anggaran 2017-2022. Teknik Analisis Data yang digunakan dalam penelitian ini adalah metode kuantitatif dengan Analisis Regresi Linier dan Uji Sobel dengan menggunakan SPSS 27. Hasil Penelitian adalah Otonomi dan Rasio Likuiditas memiliki pengaruh yang positif dan tidak signifikan terhadap Pertumbuhan Ekonomi secara parsial. Sedangkan Rasio Solvabilitas memiliki pengaruh yang negatif dan tidak signifikan terhadap Pertumbuhan Ekonomi. Otonomi, Rasio Likuiditas dan Rasio Solvabilitas memiliki pengaruh yang positif dan tidak signifikan terhadap Pertumbuhan Ekonomi melalui variabel intervening efektivitas anggaran. Penelitian ini berkontribusi untuk membuktikan Stewardship Theory bahwa Pemerintah Daerah akan berusaha melayani dan memberikan kinerja yang terbaik untuk kepentingan masyarakat luas dan mampu mengelola keuangan secara ekonomis, efektif dan efisien untuk meningkatkan produksi barang dan jasa masyarakat, PDRB dan pertumbuhan ekonomi daerahnya
Kata Kunci: **Harga Saham, Likuiditas, Profitabilitas, Tingkat Pertumbuhan, Tingkat Valuasi**

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Introduction

We explain that Economic Growth is a process of continuously transforming the economic conditions of a country towards better economic conditions in society within a certain period. Economic Growth reflects the change (increase/decrease) in a country's Gross Domestic Product (GDP) divided by the previous year's GDP multiplied by 100%. The Indonesian government tries to increase this Economic Growth every quarter, quarter, semester and every year to increase the prosperity of society towards a civil society that is free of collusion, corruption and nepotism.

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The research was conducted in East Java because East Java Province is an area located at the eastern tip of Java Island and includes Madura Island with an area of 47,803.49 km2 divided into 29 Regency Governments and 9 City Governments. The researcher chose the research location in East Java Province during the 2017-2022 budget year because the Gross Regional Domestic Product of East Java Province in 2021 amounted to IDR 1,669.117 trillion, the second largest in Indonesia after DKI Jakarta Province and the East Java Provincial Government managed total assets in the 2020 budget year amounting to IDR 41.931 trillion, also the second largest in Indonesia after DKI Jakarta Province. The East Java Provincial Government has also received many awards for the best Governance from the Central Government of the Republic of Indonesia. The latest award is that East Java Province (Jatim) won the 2022 Innovative Government Award (IGA), the Most Innovative Province category from the Ministry of Home Affairs. Another reason researchers conducted research in East Java is because the population of East Java Province is the second largest in Indonesia, which is 39,955,900 people and according to the Indonesian Population Profile Analysis of BPS RI (2022) "The largest number of productive age population at the provincial level is in West Java, which is 18.04 percent. After West Java, other provinces on the island of Java also have a large number of productive age population. East Java Province is in 2nd place and Central Java Province is in 3rd place" (BPS RI, 2022). The number of productive age population will also increase the production of goods and services, GRDP and Economic Growth of East Java Province.

The research was conducted in East Java because in the Catalog of Gross Regional Domestic Product of Provinces in Indonesia According to Industrial Fields 2017-2021 BPS RI (2021) GRDP at constant prices for East Java Province in 2019 amounted to IDR 1,649.849 trillion, down to IDR. 1,611.508 trillion in 2020 so that economic growth fell by -2.33% (BPS RI, 2021). This was caused when the Indonesian Government implemented Large-Scale Social Restrictions (PSBB/Social Restrictions) to prevent the spread of the Covid-19 virus in 2020 based on Law Number 6 of 2018 concerning Health Quarantine. Social Restrictions include school holidays, government offices and private companies, restrictions on religious activities and activities in public facilities. However, the GRDP at constant prices for East Java Province in 2021 of IDR 1,669.117 trillion experienced a significant increase from IDR 1,611.508 trillion in 2020 so that Economic Growth increased by 3.57% (BPS RI, 2021). This is because the Indonesian Government has started to hold the first and second dose of Covid-19 Vaccination and the first and second booster Covid-19 Vaccination in 2021-2022 so that gradually the community has started to reopen their businesses normally, government offices and private companies have started to operate normally work from office (WFO) and Indonesia's GDP has experienced a significant recovery and increase.

The research was conducted in East Java after seeing the phenomenon of East Java Provincial Government debt in 2017 amounting to IDR 1.256 trillion decreased by 43.4% to IDR 711 billion in 2021 has the potential to influence Economic Growth to increase. Is the Solvency Ratio of Regency/City Governments inversely proportional to Economic Growth in their regions. This

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phenomenon will be formulated in the Problem Formulation and Research Hypothesis in the next chapter. The independent variables of this study are taken from the research of Turley et al. (2015) which offers a new financial performance framework. This framework adapts and expands on previous methodologies and includes new financial performance measures that reflect considerations in the literature on financial performance measures that are appropriate for local government units, namely Liquidity, Autonomy, Operating Performance, Collection Efficiency and Solvency (Turley et al., 2015). The researcher took 3 variables of Autonomy, Liquidity and Solvency which will be independent variables in the formulation of the Research Hypothesis in the next Chapter in accordance with the Limitations and Suggestions of the research of Arsa & Setiawina (2015) and Sularso and Yanuar (2011). The selection of the Liquidity and Solvency variables is also due to the results of Prathama's research (2012) which failed to find a positive effect of the Solvency Ratio on Economic Growth and Wibowo's research (2011) which proved that the Liquidity Ratio had a positive and insignificant effect on economic growth.

The practical contributions of this research are :

- Provide input to Regional Heads in East Java to be able to manage finances economically, effectively and efficiently and be able to produce and manage financial resources and PAD independently by utilizing existing resources in the region optimally to optimize the GRDP and Economic Growth of the region.
- As a recommendation to the Regents and Mayors in East Java to increase regional taxes, BUMD Profits and regional levies to reduce dependence on DAU, DAK and DBHP transfer revenues from the Central Government.

Literature review

Stewardship Theory

Stewardship Theory, which incorporates the ideas of Value for Money, New Public Management, and Reinventing Government, serves as the primary theory (Grand Theory) in this study. Research Gap in order to connect the ideas of New Public Management (NPM), Reinventing Government, and Value for Money with the analysis and discussion of research findings on the effects of autonomy, liquidity ratios, and solvency ratios on regional economic growth—with budget effectiveness acting as a mediating factor—this study applies stewardship theory. The relationship between the government (the steward) and society (the principal) is explained by the idea of stewardship, which holds that the government will always work in the principal's best interests. Stewardship Theory as the highest theory underlying this research is part of Agency Theory which describes where the target of their main results for the benefit of the organization is the main focus rather than the management's own individual goals (Donaldson & Davis, 1991).

The relationship between Stewardship theory here is to explain how the existence of regional government as an institution or vehicle that can be trusted to accommodate community complaints, and also provide good services to the community, and is able to account for the finances that are mandated and the economy is fulfilled and public welfare can be achieved optimally. To carry out

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this responsibility, stewards (managers and internal auditors) really need to organize all their abilities in making internal controls effective to produce quality financial information reports (Wahida, 2015).

Based on the grand theory reference above, the researcher wants to measure the relevance of Stewardship theory with the ability of Regional Heads to be able to manage their finances and debt portfolios economically, effectively and efficiently and to be able to manage financial resources and PAD independently by utilizing regional resources optimally. Regional Governments (Stewards) with good performance are also expected to be able to manage their debt portfolios to be able to increase Economic Growth and the prosperity of the community (Principal) in their regions.

Value for Money Concept

Good financial management demonstrates how the government may implement new public management ideas and the idea of value for money in its operations. More efficient budget management by regional governments will promote the accomplishment of set objectives. Revenue increase can be realized in the targeted regions provided the government manages its regional revenue resources efficiently and avoids needless waste (Asrori et al., 2020). The significance of efficient financial and governmental management is emphasized by the concept of value for money (Anggadini, 2012). Asrori et al. (2020) state that good government financial performance is correlated with effective budget management. Stewardship theory states that in order to achieve the public interest, the government will make every effort to function at its highest level.

Based on the grand theory reference above, the researcher wants to measure the relevance of the Value for Money concept with the ability of the Regional Government (Steward) to be able to manage its finances and debt portfolio economically, effectively and efficiently and be able to manage financial resources and PAD independently by utilizing regional resources optimally to be able to increase Economic Growth and community prosperity (Principal) in their regions. This Value for Money concept is also expected to be useful for Regional Heads, Regional Inspectorates and DPRD in East Java Province in Performance Monitoring and Evaluation and as a guideline for the BPK RI and BPKP RI in implementing Performance Audits. Is the low budget realization caused by the Regional Head implementing his work program economically, effectively and efficiently or the failure of the Regional Head in implementing his work program.

New Public Management Concept

Through the adoption of various private sector management practices and approaches into public sector organizations, new public management theory is employed to increase performance in the public sector (Hughes, 1998; Hood & Jackson, 1991). According to Mahmudi (2015) New Public Management is a public management theory which assumes that the implementation of private sector management is better than public sector management practices (Mahmudi, 2015). Therefore, to improve the performance of the public sector, it is necessary to use several management practices and techniques that are applied in the private

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sector to public sector organizations. The background to the birth of New Public Management began in 1980 and 1990 in Europe, due to demands for traditional administrative models that is no longer able to improve the performance of the public sector (Mahmudi, 2015).

Based on the grand theory reference above, the researcher wants to measure the relevance of New Public Management (NPM) with the ability of the Regional Government (Steward) in managing its finances and debt portfolio economically, effectively and efficiently and is able to generate and manage financial resources and PAD independently by utilizing available resources optimally to be able to increase Economic Growth and community prosperity (Principal) in their regions. The concept of New Public Management and Reinventing Government is also expected to be useful for Regional Heads to apply the principles of private sector management to public sector management and implement performance accountability for the delegation of authority, regional autonomy and fiscal decentralization from the Central Government of the Republic of Indonesia.

We analyzed and made research gap conclusions from several previous studies in terms of research objects, research data collection period and the choice of independent variables, intervening variables and dependent variables and the conceptual framework used. Researchers used data from the Budget Realization Report and Financial Balance of regional governments in East Java between the 2017-2022 budget years. Budget Effectiveness is an intervening variable that is used in conjunction with Autonomy, Liquidity Ratio, and Solvency Ratio as independent variables to study their influence on regional economic growth factors. These variables have not been used in previous research. Using budget effectiveness as an intervening variable to mediate the influence of autonomy, liquidity ratios, and solvency ratios on regional economic growth in East Java in the 2017–2022 budget year is the originality (research gap) of this study. Research Gap was found in the research of Harahap et al. (2018) and Siregar (2016) who failed to make the Capital Expenditure variable an intervening variable because they failed to increase the indirect influence of the independent variables with the dependent variable Economic Growth, so the researchers chose a new intervening variable, namely budget effectiveness. Based on the findings of earlier studies, the budget effectiveness interference variable was chosen, and it has a generally consistent effect on the financial performance of local governments. It has been demonstrated through research by Arsa & Setiawina (2015), Astuti (2015), and Siregar (2016) that budget effectiveness significantly affects the financial performance of local governments. The Research Gap was also found in Alexandri's (2022) research results where the Independence Ratio did not have a significant positive effect on regional economic growth. According to research results by Alexandri (2022), the ratio of independence, effectiveness and partial growth does not have a significant effect on regional economic growth on the island of Sumatra. The Efficiency Ratio has a significant effect on regional economic growth on the island of Sumatra. The Independence Ratio, Effectiveness Ratio, Efficiency Ratio and Growth Ratio together influence regional economic growth on the island of Sumatra (Alexandri, 2022). According

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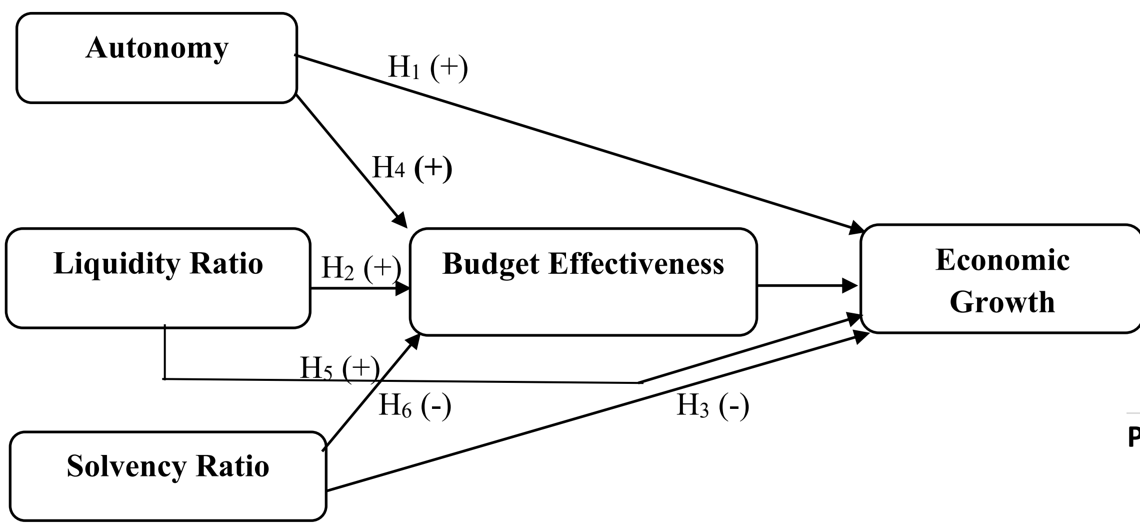
to Asrori et al. (2020), budget effectiveness is unaffected by autonomy. Budget effectiveness is significantly positively impacted by operational performance. The financial performance of regional government is significantly improved by autonomy, operational performance, and budget effectiveness. According to Asrori et al. (2020), budget effectiveness is unable to moderate the impact of operational performance and autonomy on the financial performance of regional governments.

Based on the Problem Formulation and Research Objectives explained in the Introduction, we will use Stewardship theory with the concepts of New Public Management (NPM), Reinventing Government and Value for Money to connect with the analysis and discussion of research results on the influence of Autonomy (X1), Liquidity Ratio (X2) and Solvency Ratio (X3) to regional Economic Growth (Y) with the mediating role of Budget Effectiveness (M), then interpreted in a conceptual framework and developing a hypothesis of the relationship between variables.

The conceptual framework in this research is described in the data flow diagram as follows:

Figure 1. Conceptual Framework



In the Data Flow Diagram above there are 3 (three) independent variables, namely Autonomy (X1), Liquidity Ratio (X2) and Solvency Ratio (X3), one dependent variable, namely Economic Growth (Y) and one intervening variable, namely Budget Effectiveness (M). . The three independent variables in the sense of increasing/decreasing Autonomy (X1), Liquidity Ratio (X2) and Solvency Ratio (X3) will increase/decrease Economic Growth (Y) through Budget Effectiveness (M) as an intervening variable. We formulated 6 research hypotheses that will be tested, namely:

1. H_1 : Autonomy has a positive effect on Economic Growth
2. H_2 : Liquidity Ratio have a positive effect on Economic Growth
3. H_3 : Solvency Ratio has a negative effect on Economic Growth
4. H_4 : Autonomy has a positive effect on economic growth through budget

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effectiveness

5. H_5 : Liquidity ratio have a positive effect on economic growth through budget effectiveness
6. H_6 : Solvency ratio have a negative effect on economic growth through budget effectiveness

The independent variables of this study are taken from the research of Turley et al. (2015) which offers a new financial performance framework. This framework adapts and extends the previous methodology and includes new financial performance measures that reflect considerations in the literature on financial performance measures that are appropriate for local government units, namely Liquidity, Autonomy, Operational Performance, Collection Efficiency and Solvency (Turley et al., 2015). The researcher took 3 variables of Autonomy, Liquidity and Solvency which will be independent variables in the formulation of the Research Hypothesis in the next chapter in accordance with the Limitations and Suggestions of the research of Arsa & Setiawina (2015) and Sularso and Yanuar (2011). The selection of the Liquidity and Solvency variables was also due to the results of Prathama's research (2012) which failed to find a positive effect of the Solvency Ratio on Economic Growth and Wibowo's research (2011) which proved that the Liquidity Ratio had a positive and insignificant effect on economic growth.

The Intervening Variable of Budget Effectiveness is taken from the research modeling of Asrori et al. (2020). The researcher will replicate the research of Asrori et al. (2020) by adding the independent variables of Liquidity Ratio (X2) and Solvency Ratio (X3) and replacing the dependent variable (Y) of Financial Performance with the dependent variable of Economic Growth (Y) so that it is expected that Budget Effectiveness as an Intervening Variable (M) can strengthen the indirect relationship between the Autonomy variable (X1) and the dependent variable of Economic Growth (Y).

Research methods

This study uses the population of all Regency and City Governments in East Java Province during the 2017-2022 budget years. The data collection method uses the census method by taking all samples of Regency and City Governments in East Java Province. The number of samples is 228 Financial Reports of Regency and City Governments throughout East Java Province during the 2017-2022 budget years. The census method was chosen to obtain a more accurate generalization of research results with the most up-to-date data and free from errors in other existing sampling methods. The results of the census method can also be used as reference data for parent samples for further survey and research activities.

Statistical data were obtained from the database of the Gross Regional Domestic Product Report of Regency_City of East Java Province According to Business Field 2017-2022 BPS RI. The researcher has conducted correspondence via E-mail with the PPID and Public Relations Section of the Audit Board of the Republic of Indonesia Representative Office of East Java to obtain the Audit

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Result Report database of the BPK RI Representative Office of East Java which was sent via Google Drive. From the LHP of the BPK RI Representative Office of East Java, data on the Budget Realization Report and Financial Balance of 38 Regency and City Governments in East Java Province during 2017-2022 can be obtained.

The data analysis technique used in this research is a quantitative method with the Positivism Paradigm. The analytical methods used in this research are Descriptive Statistics, Classical Assumption Test, Coefficient of Determination Test, Regression Analysis, Hypothesis Testing and Sobel Test using SPSS 27. Sekaran (2016:28) explains In a positivist view of the world, science and scientific research is seen as the way to get at the truth – indeed, positivists believe that there is an objective truth out there ‐ to understand the world well enough so that we are able to predict and control it. For a positivist, the world operates by laws of cause and effect that we can discern if we use a scientific approach to research. Positivists are concerned with the rigor and replicability of their research, the reliability of observations, and the generalizability of findings. They use deductive reasoning to put forward theories that they can test by means of a fixed, predetermined research design and objective measures. The key approach of positivist researchers is the experiment, which allows them to test cause-and-effect relationships through manipulation and observation. Some positivists believe that the goal of research is to only describe phenomena that one can directly observe and objectively measure. For them, knowledge of anything beyond that such as emotions, feelings, and thoughts ‐ is impossible (Sekaran, 2016:28).

Sugiyono (2019:22) explains As previously stated, in quantitative methods based on the philosophy of positivism, reality is seen as something concrete, can be observed with the five senses, can be recommended based on type, shape, color, and behavior, does not change in a relatively long time, can be measured and measured, the relationship between variables is causal (cause and effect), and is value-free. Thus, in quantitative research, researchers can determine only a few variables from the object being studied, and then can create instruments to measure them (Sugiyono, 2019:22).

Hypothesis testing uses the Multiple Linear Regression method to find and calculate the relationship/influence of several independent variables with the dependent variable to estimate the population mean or the mean of the dependent variable based on the known values of the independent variables.

Testing the mediation hypothesis can be done using the Sobel test. The Sobel test is done by testing the strength of the indirect influence of X1, X2 and X3 on Y through M. Ghozali (2021: 276-277) states "Testing the mediation hypothesis can be done using a procedure developed by Sobel (1982) and known as the Sobel test. The Sobel test is done by testing the strength of the indirect influence of X to Y through M. The indirect influence of X to Y through M is calculated by multiplying the path X M (a) by the path M Y (b) or ab. So the coefficient ab = (c-c '), where c is the influence of X on Y without controlling M, while c' is the coefficient of a and b written as sa and sb and the magnitude of the standard error of the indirect effect is sab. To test the influence of the

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intervening variable, the path analysis method is used. Path analysis is an extension of multiple linear regression analysis, or path analysis is the use of regression analysis to estimate the causal relationship between variables (casual models) that have been previously established based on theory. Path analysis itself cannot determine the causal relationship and also cannot be used as a substitute for researchers to see the causal relationship between variables. The causal relationship between variables has been formed with a model based on theoretical foundations. What path analysis can do is determine the pattern of relationships between three or more variables and cannot be used to confirm or reject the hypothesis of imaginary causality" (Ghozali, 2021: 276-277).

Result and Discussion

East Java Province is an area located at the tip of East Java Island and includes Madura Island with an area of 47,803.49 km2 consisting of 29 Regency Governments and 9 City Governments. Researchers chose a research location in East Java Province in the 2017-2022 budget because the Gross Regional Domestic Product of East Java Province in 2021 was IDR. 1,669.117 trillion, the second largest in Indonesia after DKI Jakarta Province and the East Java Provincial Government managed total budget assets for 2020 amounting to IDR. 41.931 trillion is also the second largest in Indonesia after DKI Jakarta Province.

Table 1. Descriptive data

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Otonomi (X_1)	228	0.074029	0.642534	0.187680	0.094912
Rasio Likuiditas (X_2)	228	0.725387	124.7325	18.701118	16.97317
Rasio Solvabilitas (X_3)	228	0.000802	0.084899	0.010922	0.012360
Efektivitas Anggaran (M)	228	0.721059	1.061462	1.070804	0.131392
Pertumbuhan Ekonomi (Y)	228	-0.064551	0.102454	0.034493	0.032991

The results of descriptive statistics from 228 data with EViews 12 show that the variable X1 (Autonomy) has an average of 0.187680, a minimum figure of 0.074029 and a maximum of 0.642534. Variable X2 (Liquidity) with an average

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of 18.701118, a minimum figure of 0.725387 and a maximum of 124.7325. Variable X3 (Solvency) with an average of 0.010922, a minimum figure of 0.000802 and a maximum of 0.084899. Variable M (Budget Effectiveness) with an average of 1.070804, a minimum figure of 0.721059 and a maximum of 1.061462. And variable Y (Economic growth) with an average of 0.034493, a minimum figure of -0.064551 and a maximum of 0.102454.

Multicollinearity Test

Researchers test multicollinearity to find the relationship between independent variables in Regression modeling. Good regression modeling should not have multicollinearity. Researchers use the Variance Inflation Factor (VIF) indicator to detect multicollinearity. If the VIF value > 10 proves multicollinearity.

Table 2. Multicollinearity Test

Variabel	Multicollinearity Test	
	Tolerance	VIF
X1 (Autonomy)	0.967	1.034
X2 (*Liquidity*)	0.785	1.274
X3 (*Solvency*)	0.818	1.222
M (Budget Effectiveness)	0.977	1.024

Based on table 2. it is concluded that all VIF values of each independent variable are less than 10 and the tolerance value is > 0.1. There is no multicollinearity or strong correlation between the independent variables.

Influence of X1, X2, X3, and M on Y

The results of the F test and t test are explained in the tables below :

Table 3. Model Summary Test Results

Model	R Square	Adjusted R Square
Model 2	0,041	0,024

The table given is the result of regression analysis to predict Economic Growth (Y) using Budget Effectiveness (M), Autonomy (X1), Liquidity (X2), and Solvency (X3) variables. The discussion is the R Square value is 0.041, indicating that about 4.1% of the variation in the dependent variable (Economic Growth - Y) can be explained by the independent variables used in the model. The Adjusted R Square value is 0.024 after considering the number of independent variables and samples used. The average estimate of the prediction error in the model is 0.032590.

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2. ANOVA (Analysis of Variance) :

Table 4. F Test Results (ANOVA)

Model	F Count	P value	F Table	Information
Model 2	2,404	0,051	2,411	Not significant

This analysis shows the overall significance of the regression model. The F-statistic value is 2.404 with a p-value of 0.051. The p-value is close to, but not low enough for the 0.05 level of significance, indicating that statistically, this model is not significant overall.

3. Coefficients

Table 5. t-Test Results

Variables	Path Coefficient	t count	p-value	Information	Decision
X1 (Autonomy)	0,120	1,793	0,074	Not Significant	H1 is not supported
X2 (Liquidity)	0,050	0,677	0,499	Not Significant	H2 is not supported
X3 (Solvency)	-0,046	-0,633	0,528	Not Significant	H3 is not supported
M (Budget Effectiveness)	-0,161	-2,426	0,016	Significant	

R Square = 0,023

The coefficient for Budget Effectiveness is -0.040 with a p-value of 0.016. The p-value is less than the significance level of 0.05, indicating that this variable has a significant effect on Economic Growth. Other variables (Autonomy, Liquidity, Solvency) do not show a significant effect on Economic Growth, with a p-value above 0.05. Standardized regression equation :

$Y = 0.120\ X1 + 0.050\ X2 – 0.046\ X3 - 0.161\ M + \varepsilon i$

From the results of this analysis, it can be seen that only Budget Effectiveness (M) has a significant effect on Economic Growth (Y). Other variables (Autonomy, Liquidity, Solvency) do not show a significant effect in this regression model. In the regression model that has been given, the researcher tests the hypothesis of each independent variable coefficient on the dependent variable Economic Growth (Y). For the Autonomy Variable (X1) the Null Hypothesis (H0) is There is no relationship between Autonomy (X1) and Economic Growth (Y) (coefficient X1 = 0). The t-statistic value for the Autonomy variable is 1.793 with a p-value of 0.074. The p-value is greater than the significance level of 0.05,

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so it is not strong enough to reject the null hypothesis. This shows that Autonomy (X1) has a positive and insignificant effect on Economic Growth (Y).

The Liquidity variable (X2) has a Null Hypothesis (H0) is There is no relationship between Liquidity (X2) and Economic Growth (Y) (coefficient X2 = 0). The t-statistic value for the Liquidity variable is 0.677 with a p-value of 0.499. The p-value is greater than the significance level of 0.05, so it is not strong enough to reject the null hypothesis. This shows that Liquidity (X2) has a positive and insignificant effect on Economic Growth (Y).

The Solvency variable (X3) has a Null Hypothesis (H0) is There is no relationship between Solvency (X3) and Economic Growth (Y) (coefficient X3 = 0). The t-statistic value for the Solvency variable is -0.633 with a p-value of 0.528. The p-value is greater than the significance level of 0.05, so it is not strong enough to reject the null hypothesis. This shows that Solvency (X3) has a negative and insignificant effect on Economic Growth (Y).

The Intervening Variable Budget Effectiveness (M) has a Null Hypothesis (H0) is There is no relationship between Budget Effectiveness (M) and Economic Growth (Y) (coefficient Budget Effectiveness = 0). The t-statistic value for the Budget Effectiveness variable is -2.426 with a p-value of 0.016. The p-value is less than the significance level of 0.05, so the researcher can reject the null hypothesis. This shows that Budget Effectiveness has a negative and significant effect on Economic Growth.

From the results of the t-statistic test for each coefficient, only the Budget Effectiveness variable (M) has a significant effect on Economic Growth (Y). Other variables (Autonomy, Liquidity, Solvency) do not have a significant effect in this regression model.

Indirect influence hypothesis test (Sobel Test)
Table 6. Sobel Test

Influence	Coefficient	Sobel	p-value	Information	Decision
X1→M→Y	-0.008	0,717	0,473	Not Significant	H4 is not supported
X2→M→Y	-0,026	1,622	0,105	Not Significant	H5 is not supported
X3→M→Y	-0,004	0,367	0,714	Not Significant	H6 is not supported

The results of the Sobel Test analysis of the indirect influence between variable X1 (Autonomy) on variable Y (Economic Growth) through variable M (Budget Effectiveness), obtained positive and insignificant results with a p-value of the Sobel test greater than α (0.473> 0.050) or because the Sobel test value = 0.717 <1.96. Budget effectiveness cannot be a mediator of the influence of autonomy on economic growth.

The results of the Sobel Test analysis of the indirect influence between variable X2 (Liquidity) on variable Y (Economic Growth) through variable M (Budget Effectiveness), obtained positive and insignificant results with a p-value

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of the Sobel test greater than α (0.105> 0.050) or because the Sobel test value = 1.622 <1.96. Budget effectiveness cannot be a mediator of the influence of the Liquidity Ratio on economic growth.

The results of the Sobel Test analysis on the indirect effect of variable X3 (Solvency) on variable Y (Economic Growth) through variable M (Budget Effectiveness) show a positive but insignificant effect, as evidenced by the Sobel p-value. The test is greater than α (0.714> 0.050) or because the Sobel test value of 0.367 is less than 1.96. Budget effectiveness does not mediate the effect of the Solvency Ratio on economic growth.

Discussion

In this discussion section, the results of the analysis will be explained as an answer to the Problem Formulation in Chapter 1 regarding the three independent variables of Autonomy, Liquidity Ratio and Solvency Ratio which are suspected of being able to influence the dependent variable of Economic Growth through the Intervening Variable of Budget Effectiveness.

The Influence of Autonomy, Liquidity Ratio and Solvency Ratio on Economic Growth

The results of the analysis do not support the research of Harahap et al. (2018) which successfully proved that the Independence/Autonomy Ratio and Budget Effectiveness simultaneously have a positive and significant effect on Economic Growth. From the results of the analysis, it can be explained that if there is an increase in the amount of local government revenue and financing from Autonomy, the Liquidity Ratio, Solvency Ratio and PAD Budget Effectiveness together have not been able to increase the production of community goods and services and the acceleration of regional infrastructure development and have not been able to increase the economic growth of the Regency/City significantly. If there is a decrease in the amount of local government revenue and financing from Autonomy, the Liquidity Ratio, Solvency Ratio and PAD Budget Effectiveness together, it also does not significantly affect the economic growth of the region.

Based on the F Test, the influence of predictor variables Autonomy, Liquidity Ratio, Solvency Ratio and Budget Effectiveness on the dependent variable Economic Growth has not been able to prove the implementation of Stewardship Theory that the Regional Government (Stewards) as an Entity tasked with serving public complaints (Principals), and also providing good service to the community, and is able to account for the finances entrusted, economic growth is fulfilled and public welfare can be achieved economically, effectively and efficiently (Value for Money Concept). The researcher provides suggestions to carry out this accountability, the Regional Government as the manager (Stewards) and the SKPD Inspectorate of the Region as the internal auditor need to make internal control effective in order to produce quality financial information reports for Stakeholders and the entire East Java community (Principals).

With the insignificant influence of Autonomy, Liquidity Ratio, Solvency Ratio and PAD Budget Effectiveness on Economic Growth, it proves that the

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Regency/City Government in East Java Province calculates and determines the Economic Growth target by paying less attention to the importance of the performance indicators of the three independent variables of local government revenue and financing together/simultaneously.

The Effect of Autonomy on Economic Growth

Based on the t-test, the t-statistic value for the Autonomy variable is 1.793 with a p-value of 0.074. The p-value is greater than the significance level of 0.05, so it is not strong enough to reject the null hypothesis. This shows that Autonomy has a positive and insignificant effect on Economic Growth. The t-test shows that increasing Autonomy is unable to significantly increase Economic Growth. This study supports the research results of Alexandri (2022), Sukarni and Budiasih (2016) and Hutauruk (2011) which state that the Independence/Autonomy Ratio has no significant effect on economic growth. The results of this analysis do not support the results of previous studies conducted by Harahap et al. (2018), Astuti (2015), Ani and Dwirandra (2014) and Wijaya (2011) who succeeded in proving that the Independence/Autonomy Ratio partially has a positive and significant effect on Economic Growth. This is because the location of the research object, year of research, Hypothesis modeling and secondary research data are different from the LKPD research object in East Java during 2017-2022 in this study. Based on the tabulation of research data during 2017-2022, most of the City and Regency Governments in East Java have an Autonomy Ratio below 0.5 (50%), which means that the majority of the PAD percentage is relatively small compared to total revenue. This means that in terms of revenue, the majority of City and Regency Governments in East Java still have fiscal dependence on DAU, DBHP and DAK transfer revenues from the Central Government and community participation in paying regional taxes and regional levies is still lacking. If this Independence/Autonomy Ratio can be increased by more than 50% and public trust is high in the implementation of budget realization by the City and Regency Governments, it has the potential to increase regional Economic Growth. Researchers provide input to Regional Heads in East Java to increase regional taxes, BUMD Profits and regional levies to reduce dependence on DAU, DAK and DBHP transfer revenues from the Central Government. The policy of increasing regional taxes, BUMD Profits and regional levies needs to consider Economic Growth and the purchasing power of the people in their regions with a precautionary principle. The policy of increasing regional taxes, BUMD Profits and regional levies can be implemented when Economic Growth and National GDP have entered the Recovery and Booming phase, the external geopolitical conditions of neighboring countries are stable, safe and under control and the global GDP of the international world has stabilized and increased. Another financial performance indicator that needs to be considered is whether the Regional Government is experiencing a trend of financial distress of decreasing PAD revenue for several years due to the Covid-19 Pandemic and external geopolitical and world economic conditions before the Regional Head decides to increase PAD and the effectiveness of his regional PAD budget.

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The Effect of Liquidity Ratio on Economic Growth

Based on the t-test, the t-statistic value for the Liquidity variable is 0.677 with a p-value of 0.499. The p-value is greater than the significance level of 0.05, so it is not strong enough to reject the null hypothesis. This shows that Liquidity has a positive and insignificant effect on Economic Growth. The t-test shows that increasing Autonomy has a positive effect but is unable to significantly increase Economic Growth. The results of this analysis support the results of Chu and Chu's (2019) study which confirmed that financial liquidity, in terms of financial intermediaries and the stock market, is not linearly correlated with economic growth. Chu and Chu (2019) proved that the effect of financial liquidity on economic growth was not statistically significant during the banking crisis and stock market crash. The results of the study show that more liquidity is not always better. After a certain estimate, excessive liquidity begins to harm economic growth (Chu and Chu, 2019). This could be because Chu and Chu's (2019) research used research data sources during the banking crisis and stock market crash between 1961-2015. This analysis also supports Wibowo's (2011) research which proves that "The liquidity ratio has a positive and insignificant effect on economic growth. This means that the Liquidity Ratio cannot increase Economic Growth" (Wibowo, 2011). This analysis does not support the results of Grobety's (2018) research that "industries with greater liquidity needs tend to grow faster in countries with higher levels of government debt. The positive impact of government debt liquidity on industrial growth comes from domestic debt, not foreign debt" (Grobety, 2018). The results of this analysis also do not support Prathama's (2012) research which concluded that the Liquidity Ratio has a positive effect on Economic Growth in Regencies/Cities in Central Java and Yogyakarta Provinces. The difference in the results of this analysis is possible due to differences in research locations, Hypothesis modeling and data analysis techniques using the SEM (Structural Equation Model) method and data collection methods using purposive sampling, while this study used the census method which took data from the entire population of the City Government and Regency Government in East Java. Researchers suggest that Regional Heads in East Java need to manage their financial health and Current Assets balance in order to be able to pay off their short-term debts (Current Liabilities). With a high Liquidity Ratio, Regional Heads (Stewards) will be more focused on implementing their work programs and allocating their regional financial resources for the realization of operational expenditures (employee expenditures, procurement of goods and services and social assistance) and capital expenditures (land, building, construction, roads and irrigation expenditures) of an economical, effective and efficient Regional Government that will significantly increase the production of goods and services, consumption and prosperity of the Community (Principals), PDRB and economic growth. Regional Heads together with the DPRD need to manage the amount of debt and their Solvency Ratio to avoid the risk of default in paying off all their Liabilities which could have an impact on decreasing the economic growth of their region.

The Effect of Solvency Ratio on Economic Growth

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The t-test test shows that a decrease in Solvency cannot significantly increase economic growth. The results of this analysis support Prathama's research (2012) which concluded that the Solvency Ratio does not have a positive effect on Economic Growth in Regencies/Cities in Central Java and Yogyakarta Provinces. From the results of this analysis, it can be concluded that an increase or decrease in the Solvency Ratio and Regional Government Debt cannot affect Economic Growth in the region. This can be caused by the very small amount of Total Liabilities when compared to the Total Assets of the Regional Government so that all the results of the Solvency Ratio calculations are below 0.1 (10%). This small Solvency Ratio cannot affect the rise and fall of Economic Growth in the region. The City and Regency Governments in East Java have a solvent financial condition so that the large amount of Total Assets can pay off their relatively small Total Liabilities. Regional Heads must be able to channel their regional financing from their Liabilities to fund employee expenditures, capital expenditures and social assistance for the community in their regions in a targeted manner in order to increase the economic growth of their regions. The results of this analysis do not support the results of the research by Sandow et al. (2022) and Checherita-Westphal and Rother (2012) who proved that regional public debt and government debt have a negative effect on economic growth. This analysis also does not support the research of Kumar and Woo (2010) and Egert (2015) which states that high debt levels have a negative effect on economic growth and GDP. The results of this analysis do not support the research results of Sandow et al. (2022) and Checherita-Westphal and Rother (2012) which prove that regional public debt and government debt have a negative effect on economic growth. This analysis also does not support the research of Kumar and Woo (2010) and Egert (2015) which states that high debt levels have a negative effect on economic growth and GDP. The insignificant negative effect of the partial Solvency Ratio on Economic Growth proves that the Regency/City Governments in East Java Province calculate and determine Economic Growth targets by paying less attention to the importance of the performance indicator of the regional government's Solvency Ratio partially. The City and Regency Governments in East Java have solvent financial conditions so that the large Total Assets can pay off their relatively small Total Liabilities. This small Solvency Ratio is unable to influence the rise and fall of Economic Growth in its region. Regulation of the Minister of Home Affairs Number 15 of 2023 regulates the sources of financing for Regional Governments from regional loans, regional bonds and regional Sukuk and limits Regional Governments from directly borrowing from foreign parties, causing Regional Heads to be relatively careful in increasing their debt portfolios. The issuance of regional bonds and regional Sukuk must also obtain approval from the Minister of Finance and the Minister of Home Affairs of the Republic of Indonesia. Regional governments in East Java need to be careful in managing the amount of debt and their Solvency Ratio to avoid the risk of default in paying off all their Liabilities which could have an impact on decreasing the economic growth of their regions.

The insignificant negative effect of the Solvency Ratio partially on Economic Growth proves that the Regency/City Governments in East Java

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Province calculate and determine Economic Growth targets by paying less attention to the importance of the performance indicator of the regional government's Solvency Ratio partially. The City and Regency Governments in East Java have solvent financial conditions so that the large Total Assets can pay off their relatively small Total Liabilities. This small Solvency Ratio is unable to influence the rise and fall of Economic Growth in their regions. Regulation of the Minister of Home Affairs Number 15 of 2023 regulates the sources of financing for Regional Governments from regional loans, regional bonds and regional Sukuk and limits Regional Governments from borrowing directly from foreign parties, causing Regional Heads to be relatively careful in increasing their debt portfolios. The issuance of regional bonds and regional Sukuk must also obtain approval from the Minister of Finance and the Minister of Home Affairs of the Republic of Indonesia. Regional governments in East Java need to be careful in managing the amount of debt and their Solvency Ratio to avoid the risk of default in paying off all their Liabilities which could have an impact on decreasing the economic growth of their regions.

The Influence of Autonomy on Economic Growth through Budget Effectiveness

Based on the results of the Sobel Test analysis of the indirect influence between the Autonomy variable on the Economic Growth variable through the Budget Effectiveness variable, the results obtained were positive and insignificant with a p-value of the Sobel test greater than α (0.473> 0.050) or because the Sobel test value = 0.717 <1.96. Budget effectiveness cannot mediate the influence of autonomy on Economic Growth. This study supports the results of research by Alexandri (2022), Sukarni and Budiasih (2016) and Hutauruk (2011) which stated that the Independence/Autonomy Ratio has no significant effect on economic growth. The results of this analysis do not support the results of previous studies conducted by Harahap et al. (2018), Astuti (2015), Ani and Dwirandra (2014) and Wijaya (2011) who succeeded in proving that partially there is a positive and significant influence of the Independence/Autonomy Ratio on Economic Growth. Astuti (2015) also concluded that the Effectiveness Ratio has a significant positive effect on economic growth. The effectiveness ratio is a comparison between the realization of total regional revenue and the target of total regional revenue. A region with a high effectiveness ratio value means that the region has been able to optimize its regional ability to obtain revenue. So regions with optimal capabilities will be able to support regional economic growth. The results of this analysis also do not support the results of the study by Sularso and Yanuar (2011) which proves that "one of the factors that indirectly influences economic growth is regional financial performance. The greatest indirect influence of regional financial performance on economic growth is the effectiveness of the PAD budget. Thus, it can be stated that with regional autonomy, other indicators emerge that support economic growth, namely regional financial performance, in addition to the three main factors of economic growth, namely capital accumulation, population growth and matters related to the increase in the number of workers "(Sularso and Yanuar, 2011). This is because the location of the

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research object, the year of research, Hypothesis modeling and secondary research data are different from the research object of the Regency/City Government Financial Report in East Java Province during 2017-2022 in this study. Based on the tabulation of research data during 2017-2022, most of the City and Regency Governments in East Java have a Budget Effectiveness Ratio above 1 (100%), which means that the majority of Regional Heads have achieved and exceeded the revenue realization target, but this Intervening Variable is unable to strengthen Economic Growth because the percentage of PAD is relatively small compared to total revenue. This means that in terms of revenue, the majority of City and Regency Governments in East Java still have fiscal dependence on DAU, DBHP and DAK transfer revenues from the Central Government and community participation in paying regional taxes and regional levies is still lacking. If this Independence/Autonomy Ratio can be increased by more than 50% and public trust is high in the implementation of budget realization by the City and Regency Governments, it has the potential to increase the Economic Growth of its region.

The Effect of Liquidity Ratio on Economic Growth through Budget Effectiveness

Based on the results of the Sobel Test analysis, the indirect effect between the Liquidity variable and the Economic Growth variable through the Budget Effectiveness variable, the results obtained were positive and insignificant with a p-value of the Sobel test greater than α (0.105> 0.050) or because the Sobel test value = 1.622 <1.96. Budget effectiveness cannot mediate the effect of the Liquidity Ratio on economic growth. The results of this analysis support the results of the research of Chu and Chu (2019) which confirmed that financial liquidity, in terms of financial intermediaries and the stock market, is not linearly correlated with economic growth. Chu and Chu (2019) proved that the effect of financial liquidity on economic growth was not statistically significant during the banking crisis and stock market crash. The results of the study show that more liquidity is not always better. After a certain estimate, excessive liquidity begins to harm economic growth (Chu and Chu, 2019). This could be because Chu and Chu's (2019) research used research data sources during the banking crisis and stock market crash between 1961-2015. This analysis also supports Wibowo's (2011) research which concluded that "The liquidity ratio has a positive and insignificant effect on economic growth. This means that the Liquidity Ratio cannot increase Wibowo's Economic Growth" (2011). The results of this analysis do not support the results of Grobety's (2018) research which proves that "industries with greater liquidity needs tend to grow faster in countries with higher levels of government debt. The positive impact of government debt liquidity on industrial growth comes from domestic debt, not foreign debt" (Grobety, 2018). The results of this analysis also do not support Prathama's (2012) research which concluded that the Liquidity Ratio has a positive effect on Economic Growth in Regencies/Cities in Central Java and Yogyakarta Provinces. The difference in the results of this analysis is possible due to differences in research locations, Hypothesis modeling and data analysis techniques using the SEM (Structural Equation Model) method and data collection methods using

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purposive sampling, while this study used the census method which took data from the entire population of the City Government and Regency Government in East Java. Based on the tabulation of research data during 2017-2022, most of the City and Regency Governments in East Java have a Budget Effectiveness Ratio above 1 (100%), which means that the majority of Regional Heads have achieved and exceeded the revenue realization target but this Intervening Variable is not able to strengthen the Economic Growth of their regions. In terms of Financing, although the majority of City and Regency Governments in East Java have a very high Liquidity Ratio, Regional Heads tend to be frugal and careful in increasing their short-term debt (Current Liabilities), especially during the Covid-19 Pandemic so that they have not been able to increase the Economic Growth of their regions.

The Effect of Solvency Ratio on Economic Growth through Budget Effectiveness

Based on the results of the Sobel Test analysis, the indirect effect between the Solvency variable and the Economic Growth variable through the Budget Effectiveness variable, the results obtained were positive and insignificant with a p-value of the Sobel test greater than α (0.714> 0.050) or because the Sobel test value = 0.366 <1.96. Budget effectiveness does not mediate the effect of the Solvency Ratio on economic growth. The results of this analysis support the results of the research by Zend and Soetjipto (2022) which prove that changes in regional public debt have no relationship with changes in regional economic growth. Zend and Soetjipto (2022) stated "The estimation results for model 2 with the FEM approach show that changes in the main independent variables in this study do not have a significant relationship with changes in the dependent variable (Growth) even though the resulting coefficient shows a nonlinear value. These results can be interpreted that regional public debt is positively related to regional economic growth, and at a relatively high level of regional public debt and passing the debt turning point, the relationship changes to negative. Meanwhile, the estimation results in model 2 do not show any significant nonlinear relationship, so it can be interpreted that changes in regional public debt have no relationship with changes in regional economic growth" (Zend and Soetjipto, 2022). The results of this analysis also support the results of Chu and Chu's (2019) study which confirmed that financial liquidity, in terms of financial intermediaries and the stock market, is not linearly correlated with economic growth. Chu and Chu (2019) proved that the effect of financial liquidity on economic growth was not statistically significant during the banking crisis and stock market crash period. The results of the study show that more liquidity is not always better. After a certain estimate, excessive liquidity begins to harm economic growth (Chu and Chu, 2019). This could be because Chu and Chu's (2019) study used research data sources during the banking crisis and stock market crash between 1961-2015. The results of this analysis support Prathama's research (2012) which concluded that the Solvency Ratio does not have a positive effect on Economic Growth in Regencies/Cities in Central Java and Yogyakarta Provinces. From the results of this analysis, it can be concluded that the increase

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or decrease in the Solvency Ratio and Regional Government Debt is unable to affect Economic Growth in its region. This can be caused by the very small amount of Total Liabilities when compared to the Total Assets of the Regional Government so that all the results of the Solvency Ratio calculations are below 0.1 (10%). This small Solvency Ratio is unable to affect the rise and fall of Economic Growth in its region. The City and Regency Governments in East Java have a solvent financial condition so that the large amount of Total Assets can pay off its relatively small Total Liabilities. Regional Heads must be able to channel their regional financing from long-term debt and short-term debt to fund employee expenses, capital expenditures and social assistance for the community in their regions in a targeted manner in order to increase the economic growth of their regions. Based on the tabulation of research data during 2017-2022, most of the City and Regency Governments in East Java have a Budget Effectiveness Ratio above 1 (100%), which means that the majority of Regional Heads have achieved and exceeded the revenue realization target but this Intervening Variable is not able to strengthen the Economic Growth of their regions. In terms of Financing, the majority of City and Regency Governments in East Java have a very small Solvency Ratio below 0.1 (10%), which means that Regional Heads tend to be frugal and careful in increasing their short-term debt (Current Liabilities) especially during the Covid-19 Pandemic so that they have not been able to increase the Economic Growth of their regions.

The insignificant path analysis of the negative influence of the Solvency Ratio on Economic Growth through the intervening variable Budget Effectiveness proves that the Regency/City Government in East Java Province calculates and determines the Economic Growth target by paying less attention to the importance of the Solvency Ratio and Budget Effectiveness performance indicators of the local government PAD. The City and Regency Governments in East Java have solvent financial conditions so that the large Total Assets can pay off their relatively small Total Liabilities. This small Solvency Ratio is unable to influence the rise and fall of Economic Growth in the region. Regulation of the Minister of Home Affairs Number 15 of 2023 regulates the sources of financing for Regional Governments from regional loans, regional bonds and regional Sukuk and limits Regional Governments from directly borrowing from foreign parties, causing Regional Heads to be relatively careful in increasing their debt portfolios. The issuance of regional bonds and regional Sukuk must also obtain approval from the Minister of Finance and the Minister of Home Affairs of the Republic of Indonesia. Regional governments in East Java must be careful in managing the amount of debt and their Solvency Ratio to avoid the risk of default in paying off all their Liabilities which could have an impact on decreasing the economic growth of their regions.

Conclusion

In general, it can be concluded that the results of this study are that Autonomy and Liquidity Ratio have a positive and insignificant influence on Economic Growth partially. While the Solvency Ratio has a negative and insignificant influence on Economic Growth. Autonomy, Liquidity Ratio and

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Solvency Ratio have a positive and insignificant influence on Economic Growth through the intervening variable of budget effectiveness. This means that in terms of revenue, the majority of City and Regency Governments in East Java still have fiscal dependence on DAU, DBHP and DAK transfer revenues from the Central Government and community participation in paying regional taxes and regional levies is still lacking. If this Independence/Autonomy Ratio can be increased by more than 50% and public trust is high in the implementation of budget realization by the City and Regency Governments, it has the potential to increase the Economic Growth of their regions.

Based on the tabulation of research data during 2017-2022, most of the City and Regency Governments in East Java have a Budget Effectiveness Ratio above 1 (100%), which means that the majority of Regional Heads have achieved and exceeded the revenue realization target, but this Intervening Variable cannot mediate the indirect influence of the three independent variables of Autonomy, Liquidity Ratio and Solvency Ratio on the Economic Growth of their regions. In terms of Financing, although the majority of City and Regency Governments in East Java have a very high Liquidity Ratio, Regional Heads tend to be frugal and careful about increasing their short-term debt (Current Liabilities), especially during the Covid-19 Pandemic, so they have not been able to increase the Economic Growth of their regions.

In terms of financing, the majority of city and district governments in East Java have a very small solvency ratio of below 0.1 (10%), one of which is due to the regulation of the Minister of Home Affairs Regulation Number 15 of 2023 which regulates the sources of regional government financing from regional loans, regional bonds and regional Sukuk and limits regional governments from borrowing directly from foreign parties, causing regional heads to be relatively careful in increasing their debt portfolios. The issuance of regional bonds and regional Sukuk must also obtain the approval of the Minister of Finance and the Minister of Home Affairs of the Republic of Indonesia.

Limitation

The constraints faced during data collection were budget data and APBD realization from the Data Series of the Directorate General of Fiscal Balance of the Ministry of Finance of the Republic of Indonesia on the website https://djpk.kemenkeu.go.id/?p=5412 published in October and November at the end of the current fiscal year so that it had not been audited by the BPK RI. Therefore, the researcher switched to using budget realization data from the Audit Result Report of the BPK RI Representative Office of East Java for 2017-2022 so that the secondary data used was more accurate and accountable.

The location of the object of this research is only limited to 38 Regency and City Governments in East Java Province and the research period during the 2017-2022 fiscal year only. For further research, it is possible to expand the scope of the location of the research object to all Regency/City Governments in Indonesia using the purposive sampling method with a minimum interval of 5 years of research so that the results of the data analysis can be generalized according to the existing reality holistically.

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Suggestions

The researcher provides suggestions for further research, namely the Linear Regression data analysis technique and the Sobel Test in this study have not been able to prove the influence of Autonomy, Liquidity Ratio and Solvency Ratio on Economic Growth through Budget Effectiveness significantly. For further research, other data analysis techniques can be used such as SEM PLS or WARP PLS so that the research results are significant.

Implication

The policy implications of the findings of the hypothesis test results can provide strategic guidance in budget management and economic policies. The Implications and Practical Contributions are:

1. Providing input to the Regional Government to maximize the Autonomy Ratio, PAD Budget Effectiveness and BUMD Profit to increase the financial independence of the Regional Government and reduce the degree of fiscal dependence on DAU, DAK and DBHP transfer revenues from the Central Government of the Republic of Indonesia.
2. Providing input to the Regional Head in East Java to regulate the financial health and balance of Current Assets in order to be able to pay off short-term debts (Current Liabilities). With a high Liquidity Ratio, the Regional Head (Stewards) will be more focused on implementing his work program and allocating his regional financial resources for the realization of operational expenditures and capital expenditures of the Regional Government that are economical, effective and efficient which will increase the production of goods and services, consumption and prosperity of the Community (Principals), PDRB and its economic growth significantly.
3. From the results of the Hypothesis test, the small amount of Liabilities is not able to increase Economic Growth in East Java. If necessary, the Regional Head in East Java can increase his debt portfolio to increase capital expenditure and investment in regional infrastructure in order to increase Community Economic Growth. Because according to Stewardship Theory, Regional Heads (Stewards) must work optimally to serve and increase the prosperity and satisfaction of the Community (Principal).

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