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MODERATION OF BALANCED FUNDS FOR REGIONAL ORIGINAL INCOME AND CAPITAL EXPENDITURE ON ECONOMIC GROWTH

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Abstract:
The purpose of this study is to examine the effect of local revenue and capital expenditure on economic growth, with balancing funds as a moderating variable. The study population is the regional financial data in 5 districts/cities in North Kalimantan Province. The sample selection method uses purposive sampling. The data consists of GDP (Gross Regional Domestic Product) at constant prices to determine economic growth in North Kalimantan districts/cities, the realization of PAD (regional revenue), capital expenditure, and balancing funds. The data analysis method uses descriptive statistical analysis, linear regression, and a moderation test (Moderated Regression Analysis). The results of the study indicate that Local Revenue (PAD) partially has no positive effect on economic growth, Capital Expenditure has a positive and significant effect on economic growth, Balancing Funds have no direct effect on economic growth, Balancing Funds are proven to act as a pure moderator variable in the relationship between Capital Expenditure and Economic Growth, Conversely, Balancing Funds are unable to moderate the relationship between Local Revenue and Economic Growth. Simultaneously, Regional Original Revenue (PAD), Capital Expenditure, and the Balancing Fund are able to explain variations in regional economic growth quite well, although other factors outside the model still influence economic growth.

Keywords: Regional Original Revenue, Capital Expenditure, Balancing Fund, Economic Growth

INTRODUCTION

The fiscal decentralization approach and local government resource allocation are key issues in global economic growth analysis because local governments play a key role in productive public investment. Several recent international studies have shown that public sector investment and fiscal allocation are determinants of long-term economic growth in developing countries because they contribute to the formation of physical capital and increase regional productivity (Ahamed, 2021). The configuration of government fiscal transfer funds influences public spending patterns, with budgetary transfers often exerting a greater influence on spending reallocation than local revenues (the "Flypaper effect"), which has implications for local governments' ability to drive economic growth through productive capital expenditures (Ahamed, 2021).

In the Indonesian context, strengthening local revenue (PAD), balancing funds, and capital expenditures are key components of the regional budget (APBD) structure linked to regional economic growth (Hutapea, 2023). Local governments rely heavily on balancing funds from the central government, including the General Allocation Fund (DAU) and the Special Allocation Fund (DAK), to carry out their development functions, particularly when PAD capacity is insufficient for

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large capital expenditures that correlate with increases in regional Gross Regional Domestic Product (GRDP).

Meanwhile, Regional Original Revenue (PAD) serves as a source of income that reflects regional fiscal independence, and capital expenditure represents regional investment that directly contributes to increasing infrastructure capacity and economic productivity (Silaturrahmi et al., 2023).

Empirical studies in Indonesia show that PAD and capital expenditure have a positive influence on economic growth at the district/city level, while the moderating role of balancing funds indicates an increasing effect of PAD and capital expenditure on economic growth in several regions of North Sumatra (Hutapea, 2023). At the provincial level of Central Kalimantan, recent research also shows that PAD and balancing funds contribute significantly to government spending, which in turn impacts regional economic growth, highlighting the importance of fiscal integration in regional development strategies in eastern and central Indonesia (Haga et al., 2024).

Previous research findings indicate that PAD and balancing funds have a positive and significant influence on regional spending, which in turn supports economic growth (Silaturrahmi et al., 2023).

However, there are gaps: some studies focus on the direct relationship between PAD, balancing funds, and economic growth without considering the moderating mechanism of capital expenditure; some studies follow a general approach to budget allocation without considering the moderating relationship in the context of more complex fiscal autonomy in the last decade; and global research rarely integrates findings for regional contexts in eastern Indonesia, such as North Kalimantan, which have different fiscal characteristics than Java or Sumatra. Previous studies also show variability in empirical results on the effect of PAD on economic growth and capital expenditure allocation, necessitating further testing of the moderating effect of balancing funds on this relationship using more recent data from the last 3–5 years (Rahayu, Jaeni, 2025).

Based on these insights, the research question posed in this study is: How does the moderation of balancing funds influence the relationship between local revenue and capital expenditure on economic growth at the local government level, specifically in North Kalimantan Province?

Theoretically, this study seeks to develop an understanding of the interaction between balancing funds and local revenue (PAD) in the context of capital expenditure impacting regional economic growth, a phenomenon rarely analyzed simultaneously and in-depth. Empirically, although balancing funds and local revenue (PAD) has been shown to impact regional spending and development positively, there is a phenomenon of imbalance in the utilization of these funds across regions, which impacts uneven economic growth.

The purpose of this study is to analyze the moderating effect of balancing funds on the relationship between local revenue and capital expenditure on regional economic growth, and to measure the relative contribution of each source of revenue and expenditure to the dynamics of subnational economic growth.

This research provides a novel empirical analysis of the moderating role of balanced funds in strengthening the relationship between local revenue (PAD) and capital expenditures on regional economic growth. Using the latest data and a comprehensive analytical approach, this research is expected to serve as a reference for policymakers in optimizing regional fiscal resources for sustainable and equitable development.

This research's contributions are both scientific and practical: theoretically, it enriches the literature on fiscal decentralization and economic growth by incorporating balanced funds as a moderating variable in a model of the influence of local revenue (PAD) and capital expenditures.

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Managerial implications: the results of this study can inform recommendations for more effective regional financial management policies to stimulate economic growth through strengthening local revenue (PAD), strategic use of balanced funds, and determining the scale of productive capital expenditures.

The implementation of fiscal decentralization in Indonesia is an effort to empower regional governments to manage their finances independently to improve public services and encourage regional development (Badrudin, 2017). Balancing funds, consisting of the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH), are the primary instruments in the regional financial system to reduce fiscal disparities between regions and between the central and regional governments (BPS, 2023).

Economic Growth. According to Sukirno (2003), economic growth is the development of economic activities that increase in goods and services produced within a society and increase prosperity. One important indicator for understanding a country's economic condition during a given period is Gross Domestic Product (GDP), both at current and constant prices. GDP is the value of goods and services within a country produced by factors of production owned by its citizens and foreign countries (Sukirno, 2003).

Economic growth can influence the strength of the relationship between local revenue (PAD) and capital expenditures with balancing funds, making regional economic conditions a crucial factor in the effective use of fiscal funds (Melasari, 2024). Furthermore, contingency and stewardship theories emphasize the importance of accountability and the capacity of fund managers in maximizing the benefits of balancing funds and PAD for regional development (Efendi, 2023). Therefore, effective management of balancing funds and PAD, along with well-targeted capital expenditures, will strengthen sustainable regional economic growth.

Regional Original Revenue (PAD). According to Halim (2004:94), Regional Original Revenue (PAD) is revenue obtained by a region from sources within its own territory, collected based on regional regulations in accordance with applicable laws and regulations. The regional revenue sector plays a crucial role, as it demonstrates the extent to which a region can finance government activities and regional development.

Regional Original Revenue (PAD) reflects the level of regional fiscal independence, which is crucial in supporting capital expenditures, particularly for infrastructure development, a key factor in driving regional economic growth (Silaturrahmi et al., 2023). Regional economic growth is the process of continuously changing a region's economic conditions toward improvement over a specific period. One indicator for determining the economic condition of a region during a specific period is Gross Regional Domestic Product (GRDP), both at current and constant prices. Capital expenditure, as a regional investment, can increase production capacity and public services, ultimately having a positive impact on economic growth (Melasari, 2024). However, high dependence on balancing funds remains a challenge, because regional PAD is not yet optimal, and different fund management capacities cause variations in the effectiveness of capital expenditure in driving economic growth.

Capital Expenditures. According to Halim (2004:73), capital expenditures are expenditures whose benefits exceed one budget year and will increase regional assets or wealth and will result in additional routine expenditures, such as maintenance costs. Capital expenditures are expenditures for the acquisition of assets and other assets that provide benefits for more than one accounting period. Capital expenditures include (1) Land expenditures; (2) Equipment and machinery expenditures; (3) Capital expenditures on buildings and structures; (4) Capital expenditures on

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roads, irrigation, and networks; (5) Other fixed asset expenditures; (6) Other asset expenditures (Abdullah and Halim, 2007).

Balancing Funds. Law No. 33/2004 states that balancing funds are funds sourced from State Budget (APBN) revenues allocated to regions to fund regional needs for the implementation of decentralization. Law Number 33/2004 in Article 1 paragraph 19 explains that balancing funds are funds sourced from APBN revenues allocated to regions to fund regional needs in the context of implementing decentralization, and Article 10 paragraph 1 explains that balancing funds consist of three, namely general allocation funds, special allocation funds and profit sharing funds.

The Effect of Locally Generated Revenue (PAD) on Economic Growth. The effect of Locally Generated Revenue (PAD) on economic growth has been the focus of numerous empirical studies, with mixed results. Theoretically, PAD reflects regional fiscal independence, enabling local governments to make investments and expenditures that support local economic activity. Studies by Wahyuni (2020) and Irvan & Karmini (2016) indicate that PAD has a significant positive effect on regional economic growth, as increased PAD increases regional fiscal capacity to finance infrastructure development and public services, which boost economic productivity. However, several other studies, such as those by Nisa (2017) and Wayan & Suputra (2017), found a negative or insignificant effect, indicating that increased PAD is not always accompanied by balanced economic growth, possibly due to ineffective fund allocation or unsustainable dependence on natural resources. Based on the above, the first hypothesis is that Locally Generated Revenue (PAD) has an effect on economic growth.

The Effect of Capital Expenditure on Economic Growth. The effect of capital expenditure on economic growth has also been extensively studied. Capital expenditure is a regional government investment in infrastructure development that forms the foundation for economic activity. Research in several regions, such as that conducted by Silaturrahmi et al. (2023), confirms that capital expenditure positively contributes to economic growth by increasing production capacity and public services. However, some findings indicate that capital expenditure does not always have a positive impact, and some even found a significant negative impact, such as a study in Riau Province, which indicated that inefficient or poorly targeted capital expenditure can hinder economic growth (Irwan Saputra, 2023). Based on this explanation, the second hypothesis is that capital expenditure influences economic growth.

The Influence of Balancing Funds as a Moderating Variable in the Relationship Between Regional Original Revenue (PAD) and Capital Expenditure on Economic Growth. The role of balancing funds as a moderating variable in the relationship between Regional Original Revenue (PAD) and Capital Expenditure on Economic Growth has become a relatively new research focus. Balancing funds serve as a complementary source of regional revenue, but their effectiveness is strongly influenced by regional management capacity and local economic conditions. A study by Melasari (2024) showed that economic growth can moderate the influence of balancing funds, particularly Revenue Sharing Funds (DBH), on capital expenditure, strengthening the relationship between PAD and capital expenditure on economic growth. However, other findings, such as those found by Putri & Mauliyah (2022, indicate that balancing funds does not always strengthen this relationship and can even negatively impact economic growth if not managed properly. Based on this explanation, the third hypothesis is that balancing fund spending can moderate the relationship between PAD and capital expenditure on economic growth.

Research Framework.

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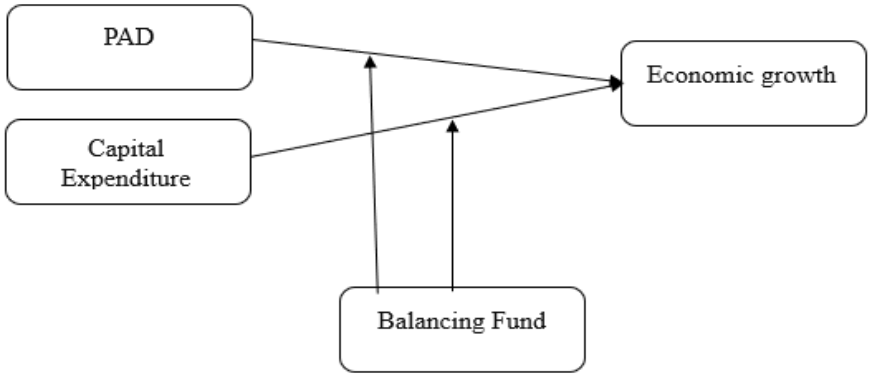

Figure 1. Research Framework

METHODS

The type of research used is causal research, which is useful for measuring the relationship between research variables or analyzing how one variable affects another. The data used is quantitative, namely reports on the realization of the Regional Budget (APBD) of regencies/cities in North Kalimantan Province for 2021-2023.

Data Analysis Method. Classical assumption testing is necessary before conducting hypothesis testing. Classical assumption testing is conducted to determine the equation requirements for a regression model and its econometric acceptability. In this analysis, it is necessary first to determine whether the research data can be tested for regression. Classical assumption testing consists of testing for normality, linearity, multicollinearity, and autocorrelation.

First Hypothesis Testing. Hypothesis testing aims to answer the author's initial assumptions regarding the influence of each variable in this study. This test is conducted after the data meet all the requirements of the classical assumption test results. The first hypothesis test in this study uses a multiple regression model. The regression model equation that the author will use in this study is

$$Y = \alpha + b1X1 + b2X2 + e$$
$$Y = \alpha + b1X1 + b2X2 + b3M + b4X1*M + b5X2*M + e$$

Description:
Y = Economic Growth
X1 = Regional Original Income (PAD)
X2 = Regional Capital Expenditure
b1, b2, = Regression Coefficient
α = Constant
e = Error

To determine the level of determination between variables, a Coefficient of Determination (R2) analysis is performed to determine the extent to which the independent variable influences the dependent variable. The R value indicates the magnitude of the influence, while the R-squared value indicates the contribution of variable X to influencing variable Y. To simultaneously examine the influence of variable X on variable Y, an F test is used. Furthermore, to partially examine the influence of variable X on variable Y, a t-test is used.

Coefficient of Determination analysis is performed to determine the extent to which the independent variable influences the dependent variable. It is done using SPSS software through

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linear regression analysis, and the results can be seen in the Model Summary table. The R and R-squared values in the Model Summary table indicate the magnitude of the influence of X on Y, and the extent of variable X's contribution to influencing variable Y (Ghozali, 2005).

The F-test is used to determine the effect of independent variables on their dependent variables simultaneously. The calculation process uses SPSS through linear regression analysis, and the results can be seen in the ANOVA table. From the F-test results, the ANOVA table can determine the level of significance. If the significance value is less than 5% Alpha, then the independent variables simultaneously influence the dependent variable, and vice versa. (Ghozali, 2005)

The t-test is used to determine the partial effect of independent variables on their dependent variables. The calculation process uses SPSS through linear regression analysis, and the results can be seen in the Coefficients table. The t-test results determine the level of significance of each independent variable on the dependent variable. If the significance value is less than 5% Alpha, then the independent variables partially influence the dependent variable, and vice versa. (Ghozali, 2005).

Second Hypothesis Testing. The second hypothesis was tested using a residual analysis. According to Ghozali (2005), residual analysis examines the effect of deviations from a model. The focus is on the lack of fit resulting from deviations from the linear relationship between the independent variables. This lack of fit is indicated by the residual value in the regression.

The regression equation for the residual analysis is as follows:

$$Z = \alpha + b1X1 + b2X2 + e$$
$$[\, e \,] = \alpha + b3Y \quad (2)$$

Description:
Y = Economic Growth
X1 = Regional Original Income
X2 = Regional Capital Expenditure
Z = Balancing Fund
b1, b2, = Regression Coefficient
α = Constant
e = Error

This residual test equation illustrates whether the balancing fund variable is a moderating variable. If the coefficient for the moderating variable is negative and significant, then the balancing fund variable is a moderating variable that moderates the influence of variables X1 and X2 on variable Y. Conversely, if it is not negative or insignificant, then the balancing fund variable is not a moderating variable.

RESULT AND DISCUSSION

Table 1. Report on the realization of the Regional Budget of the Regency/City of North Kalimantan Province for 2021-2023

No	Regency/ City	Year	Local Original Income (Rupiah)	Capital Expenditure (Rupiah)	Transfer Funds (Rupiah)	Economic growth (%)
1	Tarakan	2021	150.198.649.396.440	241.614.289.899.770	759.681.960.014.000	3,95
		2022	142.854.001.021830	304.460.318.615.500	844.608.221 458.000	5,59
		2023	174.950.040.888.630	396.040.018.311.520	826.798.441 545.000	5,9

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2	Bulingan	2021	166.197.785.940	190.105.471.380	1.142.879.933.370	3,95
		2022	261.983.387.000	266.542.793.000	1.263.856.711.000	5,3
		2023	237.970.473.000	418.150.642.000	1.575.430.890.000	4,6
3	KIT	2021	19.767.264.000	126.408.805.000	722.860.354.000	4,29
		2022	20.277.016.000	128.049.094.000	744.013.685.000	5,03
		2023	33.971.186.000	350.001.058.000	1.226.822792.000	4,5
4	Mainau	2021	74.810.000.000	101.360.000.000	1.072.870.000.000	4,5
		2022	67.030.000.000	134.670.000.000	1.197.010.000.000	5,27
		2023	91.440.000.0C0	472.930.000.000	2.168.880.000.000	4,18
5	Nunikan	2021	176.077.410.000	190.176.870.000	1.185.595.060.000	4,06
		2022	83.205.840.000	158.199.560.000	1.102.679.600.000	5,24
		2023	192.748.470.000	315.430.280.000	1.523.978.020.000	4,26

Table 2. Results of descriptive analysis: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
PAD	15	1,98E+10	1,75E+14	3,1295E+13	6,48536E+13	4,206E+27
BM	15	1,01E+11	3,96E+14	6,2998E+13	1,33200E+14	1,774E+28
DT	15	7,23E+11	8,45E+14	1,6307E+14	3,35435E+14	1,125E+29
ADDITION	15	3,95	5,90	4,7080	,63094	,398
Valid N (listwise)	15					

Based on Table 2, Descriptive Statistics, the number of observations (N) for all variables is 15, indicating that this study uses panel/time series data. All data is valid (listwise valid N = 15), so there is no missing data. The standard deviation of the PAD variable, which is greater than the mean, indicates that PAD has a very high level of variation between observations. It indicates an imbalance in regional fiscal capacity or significant fluctuations in PAD over time. Substantively, this condition reflects differences in regional abilities to tap local revenue potential.

The standard deviation value of the Capital Expenditure (BM) variable, which far exceeds the mean, indicates that capital expenditure allocation across observations is highly uneven. It indicates that some regions or certain periods have very high capital expenditures, while others have relatively low. This condition has the potential to influence variations in the impact of capital expenditure on economic growth.

Transfer funds have the highest average compared to local revenue (PAD) and capital expenditures, indicating that transfers from the central government continue to dominate the primary source of regional funding. The high standard deviation also indicates inequality in the amount of transfers received, both between regions and between periods. This condition reinforces the indication of regional fiscal dependence on the central government.

Compared to financial variables, economic growth has relatively low variation, as indicated by a small standard deviation. It indicates that the economic growth rate was relatively stable throughout the observation period, despite differences in regional fiscal capacity and spending.

Regression analysis 1.

Table 3. Results of the regression analysis

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.

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1	(Constant)	4,600	,137		33,536	,000
	PAD	-3,403E-14	,000	-3,498	-2,674	,020
	BM	1,861E-14	,000	3,929	3,004	,011

a. Dependent Variable: ADDITION

Table 3 shows a constant value of 4.600 with a significance level of 0.000, indicating that if both local revenue (PAD) and capital expenditures are zero, the economic growth rate is estimated at 4.6 percent. This constant reflects the baseline economic growth rate, which is influenced by factors outside the research model. A significance value less than 0.05 indicates that local revenue (PAD) significantly influences economic growth. However, a negative regression coefficient indicates that an increase in local revenue (PAD) is accompanied by a decrease in economic growth, assuming other variables remain constant.

These results indicate that the increase in local revenue (PAD) has not been fully allocated to productive activities capable of driving economic growth, or that routine and administrative expenditures primarily absorb PAD. A significance value less than 0.05 indicates that capital expenditure has a positive and significant effect on economic growth. It means that increased capital expenditure can stimulate regional economic growth. These results align with economic growth theory, which emphasizes the role of public investment in increasing productivity and economic activity. The absolute beta value of capital expenditure is greater than that of local revenue (PAD), indicating that capital expenditure has a dominant influence on economic growth compared to local revenue in this model.

Table 4. Results of F Test analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,717[a]	,514	,433	,47517

a. Predictors: (Constant), BM, PAD

Table 4 shows an R value of 0.717, indicating a strong relationship between PAD and Capital Expenditure variables on economic growth. The combination of these two independent variables has a fairly high correlation with changes in economic growth. The R Square value of 0.514 means that 51.4% of the variation in economic growth can be explained by variations in PAD and Capital Expenditure in this research model. Meanwhile, the remaining 48.6% is influenced by other variables outside the model, such as human resource quality, private investment, inflation rate, economic stability, and other structural factors.

The Adjusted R Square value of 0.433 indicates that after adjusting for the number of independent variables and sample size, the model is still able to explain 43.3% of the variation in economic growth. This value is good considering the relatively limited number of observations (N = 15). The Std. The error of the Estimate value of 0.47517 indicates the level of error in the model's predictions of actual economic growth. The smaller this value, the better the model's ability to predict the dependent variable. This value is relatively low compared to the average economic growth rate, indicating that the model has adequate predictive accuracy. Based on the significant R2 and R2-square values, it can be concluded that the simultaneous regression model is suitable for use. In other words, PAD and Capital Expenditure together have a significant effect on economic growth.

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Regression Model 2 (moderation).

Table 5. Results of the analysis of the moderating variable

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4,601	,142		32,389	,000
	PAD	-3,028E	,000	-3,113	-1,406	,187
	DT	6,684E-16	,000	,355	,180	,860
	BM*DT	1,846E-29	,000	,3,203	2,932	,014

Table 5 shows a constant value of 4.601 with a significance level of 0.000, indicating that when PAD, DT, and the BM×DT interaction are zero, economic growth is at 4.601 percent. This value reflects the baseline economic growth rate influenced by factors outside the model. A significance value of the direct effect of PAD on economic growth greater than 0.05 indicates that PAD does not have a direct, significant effect on economic growth after including moderating variables in the model (Heykal et al., 2024). The negative direction of the coefficient indicates that PAD has not optimally driven economic growth.

The test results for the direct effect of transfer funds indicate that transfer funds do not have a direct, significant effect on economic growth. It means that the amount of transfer funds from the central government does not automatically increase economic growth without effective management. The test results for the role of moderating variables show that a significance value less than 0.05 indicates that BM×DT has a positive and significant effect on economic growth. It confirms that the transfer funds act as a moderating variable that strengthens the relationship between capital expenditure and economic growth. In other words, capital expenditure will have a greater impact on economic growth when supported by adequate transfer funds.

Table 6. Results of the analysis of the role of moderation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,724[a]	,524	,394	,49124

a. Predictors: (Constant), BM*DT, DT, PAD BM, PAD

Table 6 shows that the R value of 0.724 indicates a strong simultaneous relationship between PAD, DT, and the BM×DT interaction on economic growth. This value is slightly higher than the unmoderated regression model, indicating that the addition of moderating variables increases the strength of the model's relationship. The R-squared value of 0.524 means that 52.4% of the variation in economic growth can be explained by PAD, DT, and the BM×DT interaction in the moderated model. Factors outside the research model influence the remaining 47.6%. Compared to the unmoderated model (R-squared = 0.514), there is an increase in the model's explanatory power, albeit relatively small. However, this increase is sufficient to demonstrate that the presence of moderating variables provides empirical added value. The adjusted R-squared value of 0.394 indicates that after adjusting for the number of variables and sample size, the model is able to explain 39.4% of the variation in economic growth. The decrease in the adjusted R-squared value compared to the R-squared reflects the addition of variables in the relatively limited sample size (N = 15). Nevertheless, this value can still be categorized as quite good in regional finance and regional

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economic research. The Std. The error of the Estimate value of 0.49124 indicates the model's level of error in predicting actual economic growth. This value is slightly larger than the previous model, indicating increased model complexity due to the addition of moderating variables.

Table 7. Results of the moderation test analysis

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4,604	,142		32,432	,000
	PAD	-4,761E-14	,000	-4,894	-,453	,659
	X1. M	3,338E-29	,000	2,789	,198	,847
	X2. M	1,464E-29	,000	2,540	,715	,490

Table 7 shows a constant value of 4.604 with a significance level of 0.000, indicating that when PAD and all interaction variables are zero, the economic growth rate is around 4.604 percent. This value reflects baseline economic growth influenced by factors other than the research model. The PAD variable's significance value, which is much greater than 0.05, indicates that PAD has no significant effect on economic growth in this moderation model. The negative direction of the coefficient indicates that increasing PAD has not been able to directly drive economic growth after considering the interaction effects.

These results indicate that X1.M has no significant effect on economic growth. It means that the moderator variable does not moderate the relationship between the first independent variable (e.g., PAD or Capital Expenditure) and economic growth. These results also indicate that X2.M has no significant effect, so there is no empirical evidence that the moderator variable strengthens or weakens the relationship between the second independent variable and economic growth.

CONCLUSION

Based on the results of descriptive statistical analysis, linear regression, and moderation tests (Moderated Regression Analysis), the following key conclusions can be drawn:

1. Regional Original Revenue (PAD) does not have a partial positive effect on economic growth. In fact, in several test models, PAD shows a negative and insignificant effect. This finding indicates that increases in PAD have not been fully accompanied by productive budget allocations, thus failing to drive regional economic growth optimally.
2. Capital Expenditure has a positive and significant effect on economic growth. It indicates that regional government spending allocated for infrastructure development and productive assets plays a significant role in increasing economic activity and driving regional economic growth.
3. Balancing Funds (Transfer Funds) does not have a direct effect on economic growth. The amount of transfer funds received by regions does not automatically increase economic growth without effective management and allocation.
4. Balancing Funds have been shown to act as a pure moderator in the relationship between Capital Expenditure and Economic Growth. The interaction between Capital Expenditure and the Balancing Fund has a positive and significant effect on economic growth, indicating that the effectiveness of capital expenditure will be strengthened when supported by adequate transfer funds.
5. Conversely, the Balancing Fund is unable to moderate the relationship between Regional Original Revenue (PAD) and Economic Growth. It indicates that transfer funds have not been

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able to strengthen the role of PAD as a source of development funding that drives economic growth.

6. Simultaneously, PAD, Capital Expenditure, and the Balancing Fund are able to explain variations in regional economic growth quite well, although other factors outside the model still influence economic growth.

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