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Drivers of Local Government Budget Performance: The Moderating Role of Economic Growth in Indonesia

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Abstract: Budget performance has become a crucial indicator of accountability and effectiveness in local government financial management. Despite extensive discussions on public sector budgeting, empirical evidence on the determinants of budget performance and the role of regional economic conditions remains limited. This study investigates the drivers of local government budget performance and examines the moderating role of economic growth in Indonesia. The study employs balanced panel data from 11 local governments in Jambi Province covering the period 2016–2024, resulting in 99 observations. This analysis applies a panel data regression approach to conclude the relationship between fiscal management variables and budget performance. The findings reveal that budget commitment has a significant negative effect on budget performance, whereas budget absorption has a positive and significant effect. In contrast, budget politics does not significantly influence budget performance. Furthermore, economic growth plays a significant moderating role in the relationship between fiscal management variables and budget performance. The moderating model demonstrates stronger explanatory power than the baseline model. These results highlight the importance of regional economic conditions in shaping the effectiveness of public financial management and improving local government budget performance.

Keyword: Budget Performance, Budget Absorption, Budget Commitment, Economic Growth, Local Government.

INTRODUCTION

Budget performance has become an increasingly important issue in public sector financial management, particularly in countries implementing fiscal decentralization. In decentralized governance systems, local governments are responsible for translating development priorities into public programs through regional budgets. Consequently, the effectiveness of budget implementation has become a key indicator of government accountability and fiscal discipline. A well-executed budget reflects the ability of local

governments to align planning, allocation, and expenditure realization in order to achieve development objectives.

In the context of public financial management, budget performance is commonly evaluated through the efficiency of budget execution, which measures the extent to which planned expenditures are realized during the fiscal year. An expenditure realization ratio approaching one hundred percent generally indicates high-budget credibility because government institutions are able to implement programs according to approved budget plans. This condition reflects strong planning discipline, effective budget adjustments, and the ability of public institutions to execute development activities in a timely manner. Conversely, lower realization ratios indicate weaknesses in budget implementation, which may arise from delays in program execution, administrative inefficiencies, weak institutional commitment, or political influences in the budgeting process.

Despite ongoing reforms in public sector financial management, many local governments still face challenges in achieving consistent budget performance. Empirical evidence shows that budget execution often deviates from initial planning due to institutional and operational constraints. One frequently observed phenomenon is the uneven distribution of government expenditures throughout the fiscal year, where spending tends to accumulate toward the end of the fiscal period. This phenomenon may reduce the quality and efficiency of public spending because agencies attempt to exhaust remaining budget allocations before the fiscal year ends. Liebman and Mahoney (2017) demonstrate that year end spending spikes can lead to inefficient procurement decisions and lower spending quality. Similarly, Mauro, Cinquini, and Pianezzi (2021) emphasize that implementation gaps between budget planning and execution remain a major challenge in performance-based budgeting systems (Robinson & Brumby, 2005).

In Indonesia, the issue of budget execution is also evident at the regional government level. Variations in expenditure realization across local governments indicate that the capacity to implement budgets effectively is not evenly distributed. Data on budget realization in local governments in Jambi Province illustrate this phenomenon. Although the average realization rate appears relatively high, significant differences can be observed across districts and years. Several local governments experienced lower realization levels in particular years, especially during the period around 2019 and 2020. These variations suggest that budget revisions and fiscal adjustments do not automatically translate into improved budget performance. Instead, the final outcome depends on the ability of local governments to manage planning adjustments, control expenditure implementation, and ensure timely execution of development programs.

Budget performance is influenced by several institutional and managerial factors within the budgeting process. One important factor is budget commitment. Budget commitment reflects the extent to which government institutions consistently implement approved budget plans. Strong commitment from implementing agencies is necessary to ensure that programs and activities are executed according to established fiscal priorities. Weak commitment may result in delays in project implementation and inefficiencies in the use of public funds.

Another important determinant of budget performance is budget absorption. Budget absorption refers to the ability of government institutions to realize planned expenditures within the fiscal year. High absorption levels indicate that public resources are utilized effectively to support development activities. However, uneven absorption patterns may signal weaknesses in administrative capacity, procurement processes, or planning accuracy. Empirical studies in Indonesia show that uneven spending patterns and year end spending spikes may reduce the quality of public investment and weaken fiscal performance (Yalisman and Khoirunurrofik, 2025).

In addition to managerial and administrative factors, political dynamics may also influence the budgeting process at the local level. The formulation and revision of regional budgets involve interactions between the executive branch and local legislative councils. Consequently, the configuration of political power within local legislatures may affect budget priorities and fiscal decision making (Wehner, 2010). The political budget cycle theory suggests that fiscal policy decisions may be influenced by political incentives, particularly when political actors attempt to maximize electoral support through spending policies. Empirical studies have shown that political competition and legislative dominance may shape government expenditure patterns and affect fiscal outcomes (Nguyen and Tran, 2023).

Another factor that may influence budget performance is the broader economic environment in which local governments operate. Economic growth determines the fiscal capacity of regional governments and affects their ability to finance development programs. Regional governments with strong fiscal capacity tend to have better capabilities in carrying out public service and regional development functions (Suparman et al., 2019). Conversely, regions facing weaker economic conditions may encounter fiscal constraints that limit budget implementation. Economic growth may therefore influence not only government revenue capacity but also the effectiveness of public spending.

Although numerous studies have examined the determinants of government performance in various contexts, empirical research investigating the interaction between fiscal management factors and regional economic conditions particularly the moderating role of economic growth remains limited, especially within the context of local governments in developing countries. Jambi Province offers a unique research setting due to its significant inter-regional economic disparities and variations in fiscal capacity, which provide a natural laboratory for examining how regional economic conditions shape the effectiveness of fiscal management practices. Unlike previous studies that have largely focused on direct effects, this study contributes to the literature by proposing and testing a moderating model that integrates institutional, political, and economic perspectives to explain budget performance in local governments.

This study therefore aims to examine the determinants of local government budget performance and to analyze the moderating role of economic growth in this relationship. Specifically, the study investigates how budget commitment, budget absorption, and budget politics influence budget performance, while considering the role of economic growth as a moderating variable. The empirical analysis uses panel data from eleven local governments in Jambi Province covering the period from 2016 to 2024. This study uses the Panel data regression analysis method to describe the relationship between fiscal management variables and budget performance.

This research contributes to the literature on public financial management in several ways. First, it provides empirical evidence on the determinants of budget performance in the context of regional governments. Second, it highlights the role of economic growth as an important contextual factor influencing the effectiveness of fiscal management. Third, the findings offer policy insights that may support efforts to strengthen budget credibility and improve public financial governance in local governments (Schick, 2003).

METHOD

This study uses secondary data obtained from regional government financial reports and official publications of Statistics Indonesia. According to (Ghozali, 2021), secondary data is most appropriate for use in quantitative research if it is obtained from official institutions and aligns with the objectives and needs of the research analysis. The dataset covers eleven districts and municipalities in Jambi Province during the period 2016 to 2024, resulting in a balanced panel consisting of ninety-nine observations. The study aims to examine the

determinants of local government budget performance and to analyze the moderating role of economic growth in this relationship.

The analytical technique applied in this study is panel data regression with a moderating regression approach. Panel data analysis allows the estimation to capture both cross-sectional differences across local governments and variations across time. The estimation procedure is conducted using Econometric Views software. Two regression models are estimated. The first model examines the direct effects of fiscal management variables on budget performance. The second model incorporates interaction terms to test the moderating role of economic growth.

The regression equations used in this study are formulated as follows.

$$KA_{it} = \beta_0 + \beta_1KOM_{it} + \beta_2PA_{it} + \beta_3POL_{it} + \beta_4PDRB_{it} + \varepsilon_{it} \quad (\text{Model 1})$$

$$KA_{it} = \beta_0 + \beta_1KOM_{it} + \beta_2PA_{it} + \beta_3POL_{it} + \beta_4PDRB_{it} + \beta_5(KOM \times PDRB)_{it} + \beta_6(PA \times PDRB)_{it} + \beta_7(POL \times PDRB)_{it} + \varepsilon_{it} \quad (\text{Model 2})$$

Where:

KA = Budget performance

KOM = Budget commitment

PA = Budget absorption

POL = Budget politics

PDRB = Economic growth

ε = Error term

i = Local government

t = Year of observation

Tabel 1. Panel Data Model Selection Results

Test	Model Comparison	Probability	Decision	Selected Model
Chow	CEM vs FEM	0,2269	Not significant	CEM
LM (Breusch-Pagan)	CEM vs FEM	0,9821	Not significant	CEM
Hausman	FEM vs REM	0,0584	Not significant	REM (does not change final decision as LM is not significant)
Final Conclusion				CEM

Source: Processed Data (2026)

Prior to parameter estimation, a series of tests were conducted to determine the most appropriate panel data regression model. The model selection procedures were performed sequentially, including the Chow Test, Hausman Test, and Lagrange Multiplier (Breusch-Pagan) Test. The Chow Test is used to select between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The Lagrange Multiplier (Breusch-Pagan) Test is used to select between CEM and the Random Effect Model (REM). The Hausman Test is used to select between FEM and REM. Based on the test results, all model selection procedures consistently indicate that the Common Effect Model (CEM) is the most appropriate model. The Chow Test result shows a probability value of 0.2269 (> 0.05), indicating that there are no significant individual differences across districts/cities, thus FEM is not required. The Lagrange Multiplier (Breusch-Pagan) Test result shows a probability value of 0.9821 (> 0.05), indicating insufficient evidence of the presence of random effects, thus REM is not more appropriate than CEM.

Based on the model selection results indicating that the Common Effect Model (CEM) is the most appropriate, parameter estimation in this study was conducted using the Panel Estimated Generalized Least Squares (EGLS) method with Period Seemingly Unrelated Regression (SUR) covariance. This method was chosen to address the presence of

heteroskedasticity across cross-sections, which was detected through the Panel Cross-section Heteroskedasticity Likelihood Ratio Test (Likelihood Ratio = 29.65165; $p = 0.0018 < 0.05$). Although CEM is essentially a pooled ordinary least squares (OLS) model, the use of Panel EGLS with Period SUR covariance allows the residual variance structure to be explicitly modeled across cross-sections and periods, thereby producing robust standard errors and efficient parameter estimates.

Tabel 2. Model Diagnostic Tests

Test	Test Format	Results
Normality Test	The Jarque-Bera test	Value of 1.689 with a probability of 0.4297
Multicollinearity Test	The correlation	KOM and PA at 0.3199
Heteroskedasticity Test	Panel Cross-section Heteroskedasticity LR Test	Value of 29.65165 with a probability of 0.0018
Autocorrelation Test	The Durbin-Watson	Value of 1.9377

Source: Processed Data (2026)

Prior to interpreting the regression results, a series of diagnostic tests were conducted to ensure the validity of the model.

1. Normality Test: The Jarque-Bera test of residuals showed a value of 1.689 with a probability of 0.4297 (> 0.05), indicating that the residuals are normally distributed.
2. Multicollinearity Test: The correlation matrix among independent variables showed that all correlation values were below 0.80, with the highest correlation between KOM and PA at 0.3199, indicating no multicollinearity problem.
3. Heteroskedasticity Test: The Panel Cross-section Heteroskedasticity Likelihood Ratio Test showed a Likelihood Ratio value of 29.65165 with a probability of 0.0018 (< 0.05), indicating the presence of heteroskedasticity across cross-sections.
4. Autocorrelation Test: The Durbin-Watson statistic showed a value of 1.9377, which is close to 2, indicating no autocorrelation problem.

Model 1 evaluates the direct influence of budget commitment, budget absorption, and budget politics on local government budget performance. Model 2 examines whether economic growth moderates the relationship between fiscal management variables and budget performance.

Budget performance represents the ability of local governments to implement planned expenditures during a fiscal year. In this study, budget performance is measured using the expenditure realization ratio, calculated as realized regional expenditure divided by the approved expenditure budget in the regional budget document. Following the public financial management literature, this ratio reflects the credibility of the budget—that is, the extent to which planned expenditures are actually implemented during the fiscal year. However, it is important to acknowledge that this measure captures the realization dimension of budget performance rather than comprehensive performance, which would also include efficiency, effectiveness, and outcome achievement. This study focuses on budget realization as the primary indicator of budget performance because it represents the most direct and objective measure of fiscal discipline and execution capacity in local governments. A higher ratio indicates greater consistency between planned budgets and realized expenditures, reflecting stronger fiscal discipline and better budget execution.

Budget commitment reflects the level of institutional compliance with the stages and timeline of the regional budgeting process. In contrast to previous studies that measure commitment using perception-based surveys, this study measures budget commitment using objective institutional data. Budget commitment is operationalized as the degree of compliance with the official budgeting schedule regulated by national budgeting guidelines.

The measurement considers several stages of the budgeting process, including submission of the general budget policy document, agreement between the executive and legislative branches, submission of the regional budget draft, joint approval of the budget draft, and the formal enactment of the regional budget regulation. The level of compliance with these stages is classified into five categories ranging from very low to very high and converted into an interval scale from one to five:

1. Submission of the General Budget Policy (GBP) document;
2. Agreement between the executive and legislative branches regarding the GBP and the Priority Temporary Budget Ceiling (PPAS);
3. Submission of the Draft Regional Revenue and Expenditure Budget (RAPBD);
4. Joint approval of the RAPBD; and
5. Formal stipulation of the Regional Regulation on the APBD.

Each stage is scored based on compliance with regulatory deadlines, with scores ranging from 1 (very low compliance) to 5 (very high compliance). The total commitment score is the sum of the scores from all five stages. This measurement approach follows the institutional compliance literature, which emphasizes formal procedures as an indicator of organizational commitment. Budget absorption represents the ability of local governments to implement expenditure budgets consistently over time. Following the public financial management literature, this study adopts a dynamic approach to measuring budget absorption that captures both the level and stability of expenditure implementation. In the first stage, the growth of realized expenditure is calculated as the percentage change in realized expenditure compared with the previous year.

$$\text{Growth_it} = (\text{Expenditure_it} - \text{Expenditure_it-1}) / \text{Expenditure_it-1} \times 100$$

In the second stage, the volatility of expenditure growth is measured using the standard deviation of expenditure growth within a three-year rolling window.

$$\text{Volatility_it} = \text{SD}(\text{Growth_it-2}, \text{Growth_it-1}, \text{Growth_it})$$

Lower volatility values indicate more stable and consistent budget absorption, while higher volatility values indicate greater fluctuations in budget execution. It is important to clarify that this measure captures the *stability* of budget absorption rather than the *level* of absorption. This distinction is critical because the level of absorption is captured by the dependent variable (budget performance), while the volatility of absorption captures the consistency of expenditure implementation over time. The use of volatility as a measure of absorption stability is consistent with recent studies on public financial management that emphasize the importance of spending regularity for fiscal discipline and program effectiveness.

Budget politics represents the influence of political configuration in the local budgeting process. In local government systems, the budgeting process involves interactions between the executive branch and the local legislative council. Political dynamics may therefore influence fiscal decisions and budget priorities. In this study, budget politics is measured using a dummy variable that captures the political dominance of the mayor or regent's supporting parties in the local legislative council. The variable takes the value of one when the coalition supporting the local executive controls more than fifty percent of the seats in the local parliament and zero otherwise.

Economic growth represents regional economic performance and is measured using the growth rate of Gross Regional Domestic Product at constant prices. This indicator reflects the real economic expansion of a region without the influence of inflation. Economic growth is calculated as the percentage change in GRDP compared with the previous year.

$$\text{Economic Growth}_{it} = (\text{GRDP}_{it} - \text{GRDP}_{it-1}) / \text{GRDP}_{it-1} \times 100$$

In this study, economic growth is treated as a moderating variable that may strengthen or weaken the influence of fiscal management variables on budget performance. Interaction terms between economic growth and each independent variable are therefore included in the moderating regression model.

RESULT AND DISCUSSION

Results

The purpose of this study is to examine the determinants of local government budget performance and to analyze the moderating role of economic growth in the relationship between fiscal management variables and budget performance. The independent variables in this study are budget commitment, budget absorption, and budget politics, while economic growth is treated as a moderating variable. Table 1 presents the regression results of Model (1), which estimates the direct effects of the independent variables on budget performance. Table 2 presents the regression results of Model (2), which incorporates interaction terms to test the moderating role of economic growth.

Table 3. Model Regression Results (1)

Variable	Prediction	Coefficient	Probability
KOM	+	-0.313049	0.0000***
PA	+	0.414980	0.0000***
POL	+	-0.137368	0.1649
PDRB	+	0.102558	0.0000***
R-squared		0.667844	
Adj R-squared		0.653710	
F-statistic		47.24987	
Prob (F-statistic)		0.000000	

Note:

KA = budget performance; KOM = budget commitment; PA = budget absorption;

POL = budget politics; PDRB = economic growth.

Significance at the level *10%, **5%, ***1%.

The regression results in Table 1 show that the model is statistically significant, as indicated by the probability value of the F-statistic which is lower than the significance level of 1 percent. The R-squared value of 0.667844 indicates that approximately 66.78 percent of the variation in local government budget performance can be explained by the independent variables included in the model.

The estimation results show that the coefficient of budget commitment is negative and statistically significant at the 1 percent level ($\beta = -0.313$; $p < 0.01$). This finding indicates that, contrary to the initial hypothesis, higher levels of budget commitment—operationalized as compliance with the official budgeting schedule—are associated with lower budget performance in the baseline model. Several plausible arguments can be proposed to explain this counterintuitive finding. First, this negative relationship may reflect a 'compliance burden' effect, whereby excessive emphasis on procedural adherence diverts organizational capacity and attention away from substantive program implementation. Second, the negative coefficient may be driven by the inherent limitations of the commitment measure; compliance with deadlines does not necessarily capture the qualitative dimensions of commitment, such as the alignment between budget allocations and program priorities, or the intensity of monitoring during the execution phase. Third, local governments with strong procedural compliance may also operate within more complex budgeting environments that necessitate frequent revisions, which in turn may reduce overall expenditure realization rates. These

explanations suggest that the relationship between commitment and performance is more complex than originally theorized. Consequently, the moderating role of economic growth is crucial for understanding the conditions under which institutional commitment can become more effective. Meanwhile, budget absorption shows a positive and statistically significant effect on budget performance. This finding suggests that higher levels of expenditure absorption contribute to better budget execution outcomes.

Budget politics shows a negative coefficient but is not statistically significant, indicating that political configuration in the local legislature does not significantly influence budget performance in the baseline model. Economic growth, on the other hand, has a positive and statistically significant effect on budget performance, suggesting that stronger regional economic conditions contribute to more effective budget implementation.

Table 4. Model Regression Results (2)

Variable	Prediction	Coefficient	Probability
KOM	+	-0.899088	0.0000***
PA	+	0.513725	0.0000***
POL	+	-0.242486	0.1317
KOM*PDRB	+	0.118838	0.0000***
PA*PDRB	+	-0.035740	0.0000***
POL*PDRB	+	0.066680	0.0302**
PDRB	+	-0.209529	0.00025***
R-squared		0.752610	
Adj R-squared		0.733580	
F-statistic		39.54857	
Prob (F-statistic)		0.000000	

Note:

KA = budget performance; KOM = budget commitment; PA = budget absorption;

POL = budget politics; PDRB = economic growth

KOMPDRB, PAPDRB, and POL*PDRB represent interaction terms between economic growth and the independent variables.

Significance at the level *10%, **5%, ***1%.

The regression results in Table 2 indicate that the moderating model is statistically significant. The R-squared value increases to 0.752610, indicating that approximately 75.26 percent of the variation in budget performance can be explained by the model including moderating effects. This suggests that incorporating economic growth as a moderating variable improves the explanatory power of the regression model.

The interaction between budget commitment and economic growth shows a positive and statistically significant coefficient. This finding indicates that economic growth strengthens the relationship between budget commitment and budget performance. In contrast, the interaction between budget absorption and economic growth has a negative coefficient and is statistically significant, suggesting that higher economic growth weakens the relationship between budget absorption and budget performance.

The interaction between budget politics and economic growth is positive and statistically significant, indicating that economic growth strengthens the influence of political configuration on budget performance. These results suggest that regional economic conditions play an important role in shaping the effectiveness of fiscal management practices in local governments.

Discussion

The findings of this study provide empirical evidence regarding the determinants of local government budget performance, particularly the roles of budget commitment, budget

absorption, and budget politics, with economic growth acting as a moderating variable. This study contributes to the literature on public financial management by examining how institutional behavior and political dynamics influence the effectiveness of budget execution in local governments.

The descriptive statistics provide an overview of the characteristics of the research variables. Based on the dataset consisting of 99 observations, the average value of budget performance is 69.24 with a standard deviation of 47.15, indicating substantial variation in budget execution across local governments and across time. These statistics suggest that the ability of local governments to implement budgets effectively differs significantly across regions. The descriptive statistics of all variables used in this study are presented in Appendix A. One notable finding in the descriptive statistics requires explanation: the budget performance variable ranges from 0.75 to 120.99, with values exceeding 100 indicating that realized expenditure surpassed the planned expenditure budget. This phenomenon can occur when local governments utilize supplementary budgets (*Anggaran Perubahan*) that increase the total expenditure ceiling beyond the initially approved budget, or when carry-over funds from the previous fiscal year are spent in the current year. Additionally, some local governments may report expenditure realization that exceeds the original budget due to the inclusion of unexpected revenues or the reallocation of funds between programs.

Budget commitment shows an average value of 2.18 with a standard deviation of 0.70. This finding indicates that the level of institutional compliance with the budgeting schedule varies across local governments. Some local governments demonstrate stronger commitment in completing budgeting stages according to the regulatory timeline, while others experience delays in several stages of the budgeting process. These variations indicate that institutional discipline in regional budgeting processes remains an important issue in public financial management.

Budget absorption also shows substantial variation across observations. The average value of the budget absorption variable is 4.21 with a relatively large standard deviation of 5.66. This finding indicates that the growth and stability of expenditure realization differ significantly across local governments. In some cases, expenditure realization grows steadily over time, while in other cases large fluctuations occur. Such fluctuations may reflect inconsistencies in planning accuracy, procurement processes, or implementation capacity within government institutions.

Political configuration also varies across observations. The descriptive statistics show that the mean value of the political dummy variable is approximately 0.45, indicating that around 45 percent of the observations represent local governments in which the coalition supporting the regional executive controls the majority of seats in the local legislative council. The remaining observations represent situations in which the executive coalition does not dominate the legislature. This distribution illustrates the diversity of political environments across local governments and highlights the potential role of political configuration in shaping budgeting dynamics. The distribution of political dominance in local legislatures is presented in Appendix B.

Economic conditions also show variation across observations. The average regional economic growth rate is approximately 4.21 percent, indicating that most regional economies experience positive growth during the observation period. However, several observations show negative economic growth, reflecting periods of economic contraction. These variations demonstrate that local governments operate under different economic environments that may influence fiscal capacity and budget implementation. The distribution of economic growth categories is summarized in Appendix C.

The regression results show that budget commitment has a significant effect on budget performance. This finding indicates that stronger institutional commitment to the budgeting

process contributes to more effective budget implementation. When local governments comply with the stages and timeline of the budgeting process, development programs are more likely to be implemented according to the approved budget plan. This finding is consistent with the goal setting theory, which emphasizes that commitment to organizational goals is an important factor in achieving performance outcomes.

Budget absorption also has a significant influence on budget performance. This finding suggests that the ability of local governments to execute planned expenditures consistently over time is an important determinant of fiscal performance. Stable expenditure implementation reflects stronger administrative capacity and better coordination in the execution of development programs.

In contrast, the results indicate that budget politics does not have a statistically significant direct effect on budget performance in the baseline model. This finding suggests that political dominance in local legislatures does not automatically determine the effectiveness of budget execution. Although political configuration may influence the process of budget formulation and revision, the implementation stage of public spending is often more strongly influenced by administrative capacity and institutional coordination within government agencies.

The moderating analysis shows that economic growth plays an important role in shaping the relationship between fiscal management variables and budget performance. Economic growth strengthens the relationship between budget commitment and budget performance, indicating that institutional commitment becomes more effective in improving budget implementation when regional economic conditions are favorable. Conversely, economic growth weakens the relationship between budget absorption and budget performance, suggesting that variations in expenditure absorption become less critical in determining budget performance when economic resources increase.

Overall, the findings of this study demonstrate that budget performance in local governments is influenced by both institutional and contextual factors. Institutional commitment and the stability of expenditure implementation play important roles in ensuring effective budget execution, while economic conditions shape the broader environment in which fiscal management practices operate.

CONCLUSION

This study examines the determinants of local government budget performance and the moderating role of economic growth in the relationship between fiscal management variables and budget performance. Using panel data from eleven districts and municipalities in Jambi Province during the period 2016-2024, this study provides empirical evidence on how institutional and political factors influence the effectiveness of budget implementation in local governments.

The results show that budget commitment and budget absorption significantly influence local government budget performance. Budget commitment reflects the level of institutional discipline in complying with the stages and timeline of the regional budgeting process. Stronger commitment contributes to more structured and predictable budget execution. Budget absorption also plays an important role in determining budget performance, indicating that the ability of local governments to implement expenditures consistently over time is essential for improving fiscal outcomes.

In contrast, budget politics does not show a statistically significant direct effect on budget performance in the baseline model. This finding suggests that political dominance in local legislatures does not automatically determine the effectiveness of budget implementation. Administrative capacity and institutional coordination appear to play a more critical role in determining the success of budget execution.

The results also show that economic growth moderates the relationship between fiscal management variables and budget performance. Economic growth strengthens the relationship between budget commitment and budget performance, indicating that institutional commitment becomes more effective in improving budget implementation when regional economic conditions are favorable. However, economic growth weakens the relationship between budget absorption and budget performance, suggesting that variations in expenditure absorption become less influential in determining budget performance when economic conditions improve.

This study contributes to the literature on public sector financial management by providing empirical evidence on the interaction between institutional behavior, political configuration, and economic conditions in shaping local government budget performance. The findings highlight that fiscal management practices operate within broader economic environments that influence the effectiveness of budget implementation.

From a policy perspective, the findings suggest that strengthening institutional commitment in the budgeting process and improving the stability of expenditure implementation are important steps toward enhancing budget credibility in local governments. Policymakers should also consider regional economic conditions when designing fiscal management strategies, as economic growth can influence how institutional and political factors affect budget performance. Nevertheless, this study has several limitations that should be acknowledged. First, the study focuses on a single province (Jambi), which limits the generalizability of the findings to other regions with different fiscal and political contexts. Second, the sample size of 99 observations (11 local governments over 9 years) is relatively small, which may limit the statistical power and precision of the estimates. Third, the measurement of budget performance using the expenditure realization ratio captures only the realization dimension, omitting other important dimensions such as efficiency, effectiveness, and outcome achievement. Fourth, the use of a dummy variable to measure budget politics oversimplifies the complex political dynamics such as coalition bargaining, legislative fragmentation, electoral competition, and political alignment between the executive and legislative branches as it only captures the numerical dominance of the executive coalition in the legislature. Fifth, the study may suffer from omitted-variable bias, as other potentially important determinants such as the quality of financial management information systems, bureaucratic capacity, and the effectiveness of internal control mechanisms were not included due to data availability constraints. Future research should address these limitations by expanding geographic coverage, incorporating additional performance dimensions, developing more comprehensive measures of political influence (e.g., the Herfindahl-Hirschman Index of legislative fragmentation, the number of parties in the governing coalition, or the proximity of the electoral cycle), and including a broader set of control variables.

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