Analysis of Regional Financial Capabilities and Independence and Their Effect on Economic Growth in Bali Province in 2019–2021

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Abstract - *While financial independence and regional economic growth have been recognized as key factors in public sector success, there is limited understanding of the specific dynamics in Bali Province, especially during the pandemic period of 2019-2021. This knowledge gap hinders an accurate evaluation of regional financial capability and independence, as well as their impact on Bali's economic growth. Thus, the purpose of this study was to analyze and describe the impact of regional financial capacity and independence on economic growth in Bali during 2019-2021. A quantitative descriptive research design was employed, using multiple linear regression analysis at a 95% confidence level (p<0.05). The results showed that both regional financial capacity and independence had a significant effect on economic growth in Bali. The analysis indicates that the regional financial independence ratio during 2019-2021 was low, showing an instructive relationship pattern. Meanwhile, the regional financial capacity ratio, though relatively limited, showed a positive relationship pattern. Additionally, fiscal decentralization and economic growth were found to negatively affect Bali's poverty rate from 2003 to 2011. Overall, regional financial capacity and independence were shown to have a significant impact on the region's economic growth. Further research is needed to explore the predisposing factors that affect economic growth, both external and internal.*

Abstrak - Meskipun kemandirian finansial dan pertumbuhan ekonomi daerah telah diakui sebagai faktor kunci dalam keberhasilan sektor publik, pemahaman mengenai dinamika khusus di Provinsi Bali masih terbatas, terutama selama periode 2019--2021 yang dipengaruhi oleh pandemi global. Kesenjangan pengetahuan ini menghambat evaluasi akurat terhadap kemampuan dan kemandirian keuangan daerah serta dampaknya terhadap pertumbuhan ekonomi Bali. Oleh karena itu, tujuan dari penelitian ini adalah untuk menganalisis dan mendeskripsikan dampak dan kemandirian keuangan daerah serta pengaruhnya terhadap pertumbuhan ekonomi di Provinsi Bali pada tahun 2019-2021. Desain penelitian deskriptif kuantitatif digunakan melalui analisis regresi linier berganda dengan tingkat kepercayaan 95% (*p*<0,05). Hasil penelitian menunjukkan bahwa kemampuan keuangan daerah dan kemandirian keuangan daerah memiliki pengaruh signifikan terhadap pertumbuhan ekonomi di Provinsi Bali. Analisis rasio kemandirian keuangan daerah pada tahun 2019-2021 tergolong rendah dengan pola hubungan instruktif, sementara rasio kemampuan keuangan daerah relatif terbatas namun menunjukkan pola hubungan yang baik. Desentralisasi fiskal dan pertumbuhan ekonomi berpengaruh negatif terhadap tingkat kemiskinan di Bali periode 2003--2011. Secara simultan, kemampuan dan kemandirian keuangan daerah berdampak signifikan pada laju pertumbuhan ekonomi. Penelitian lebih lanjut diperlukan untuk menganalisis faktor-faktor predisposisi yang mempengaruhi pertumbuhan ekonomi, baik eksternal maupun internal.

Kata Kunci: Kemandirian Keuangan; Kemampuan Keuangan; Pertumbuhan Ekonomi; Provinsi Bali; Kemampuan Daerah

INTRODUCTION

To arrange government management in a way that is sensitive to community needs, accountable to people, transparent, and practical, we must examine regional capabilities through quick, close, and precise government operations (Sumantri & Fuady, 2024). Local governments play a role in resource management, which can enhance community welfare. Local governments are the primary mandate holders of the central government in carrying out regional autonomy (Candra, Ratnawati, & Mutia, 2018). According to Law No. 23 of 2014, a region should be able to manage and strengthen its governance capacity. This is consistent with regional autonomy mandates. The central government implements a fiscal decentralization policy for local governments to solve the shortage of money, handle externalities, and redistribute local revenue. The Area Revenue and Expenditure Budget outlines how financial governance for regional autonomy is implemented *(APBD)*. The primary tool used by the area to determine how much money will be spent on the development planning process is the *APBD* (Yudha, 2020).

Studies conducted by Purba, Simangunsong, Gultom, and Sinaga (2024) show that an increase in government budget allocation is positively correlated with the growth of local own-source revenue (PAD), which in turn has an impact on increasing indicators of regional financial independence. This finding is reinforced by Wasiaturrahma & Ajija (2017), who reveal a positive and significant influence of budget contributions on financial independence in East Java Province during the 2014--2016 period. Furthermore, the study underscores the integral relationship between the independence of the regional budget *(APBD)* and original regional revenue. A greater proportion of the budget coming from local potential, compared with central or provincial government assistance, is an indicator of a region's financial independence. This independence allows local governments to have greater flexibility in accommodating the interests of local communities without being constrained by central government policies that may not be aligned with the specific needs of the region (Agustina, Pramono, Akbar, & Alma'arif, 2022; Amrita, Handayani, & Erynayati, 2021; Ayuningtyas, Astuti, Apriliawan, & Shi, 2023)

Additionally, a component of the mobilization of funds is the degree to which the area can manage its finances and reduce its reliance on the federal government. The management of local budgetary income represents the degree of regional financial independence. While attempting to utilize the potential to its fullest, local income is the primary source of income. With respect to the number or percentage of people living in poverty in a region, regions can be regarded as successful in carrying out regional financial management (Adisasmita, 2009). The greater a region's financial independence is, the less dependent it is on the federal government for funding. Financial independence can be determined by comparing the original regional income received with the total regional income (Darsana & Aswitari, 2019). The ratio of regional native income (PAD) to the amount of central government support and loans serves as a gauge of the extent of regional financial independence, demonstrating the capacity of local governments to finance their own operations, community development, and services (Wahab, Rofingatun, & Kreuta, 2017).

According to data on economic growth for 2020, Bali's GDP expanded by 9.31% (YoY), which was less than that of 2019. Because of the COVID-19 pandemic, which began in March 2020, many nations have implemented travel restriction measures that severely reduce visitor numbers (Bank Indonesia Provinsi Bali, 2021). In the final quarter of 2021, Bali's economic recovery maintained its speed. Bali's GDP expanded by 0.51% (YoY), outpacing a decrease of -2.91% in the previous quarter (YoY). The growth in community mobility following the relaxation of the Policy of Enforcing Restrictions on Community Activities and the holding of several international events at the end of the year is indicative of improvement, which is consistent with the recovery of domestic economic activity (Bank Indonesia Provinsi Bali, 2022). Finally, although the COVID-19 pandemic has continued, Bali's economic performance has improved by 2021, even though it is still constrained (Adedoyin Tolulope Oyewole et al., 2024; Adnyana, Azhari, & Sudaryati, 2022). Data on the development of regional financial capacity, regional financial independence, and economic growth in Bali Province and its indicators are presented in Table 1. Successful immunization program implementation and advancements in the tourism industry supported by domestic visitors go hand-in-hand (Bank Indonesia Provinsi Bali, 2022).

Table 1. Development of regional financial capacity, regional financial independence and economic growth in Bali Province

Indicator	Year		
	2019	**2020**	**2021**
APBD (in billion Rupiah)			
Regional Revenue	6.822.40	5.825.10	6.260.70

Indicator	Year		
	2019	**2020**	**2021**
Regional Expenditure	6.937.50	6.540.80	6.765.30
Regional Financial Capability			
Fiscal Decentralization Degree Ratio (%)	33.5	30.8	31.2
Regional Financial Dependency Ratio (%)	66.5	69.2	68.8
PAD Effectiveness Ratio (%)			
Regional Financial Independence			
Regional Financial Independence Ratio (%)	50.32	46.15	47.89
PAD Growth Ratio (%)	6.8	-14.68	7.52
Economic Growth			
GRDP (in trillion Rupiah)	253.39	229.16	244.94
Economic Growth Rate (%)	5.63	-9.31	2.47

Source: Data processed (2024)

Although previous studies have examined various aspects of regional autonomy and regional financial management, they have tended to focus on analyzing the relationship between fiscal decentralization and economic growth at the national or province-specific level. However, research specifically analyzing the impact of regional financial independence and capability on the economic growth of Bali Province, especially in the context of the COVID-19 pandemic, is still limited. The novelty of this study lies in its attempt to fill this gap by providing a comprehensive analysis of the dynamics of Bali's regional finances and economic growth during the 2019-2021 period, which includes the phases before and during the pandemic. This study aims to analyze and describe the region's influence and financial independence, as well as their impact on Bali Province's economic growth from 2019-2021. On the basis of the available literature on Bali's economic conditions, it can be hypothesized that the level of regional financial independence and capability is positively correlated with the economic growth of Bali Province. This working hypothesis was tested through rigorous empirical data analysis by considering various contextual factors that influence regional economic dynamics during the study period. This study is expected to contribute significantly to the understanding of the relationship between government budget allocations and regional financial independence. The results of this study are expected to serve as a reference for policymakers to formulate more effective and sustainable regional financial management strategies.

LITERARTURE REVIEW

Regional Financial Capability

Local financial capability is the capacity of a local government to generate sufficient revenue to independently finance public expenditures without relying too heavily on transfers from the central government (Tri Hapsari et al., 2023). Academically, regional financial capability can be measured through several main indicators: regional original revenue, balancing funds, and transfer revenues. The regional original revenue (PAD) reflects the ability of a region to explore its economic potential to generate revenue through local taxes and levies, the results of the management of separated regional assets, and other factors. The PAD is an important indicator because it reflects the extent to which a region can finance its needs from local resources. The balance fund is a transfer of funds from the central government to the regions that aims to reduce fiscal imbalances between the center and the regions and between regions. The balance fund consists of the general allocation fund (DAU), the special allocation fund (DAK), and a revenue-sharing fund (DBH). Transfer revenues are revenues obtained from the central or provincial government in the form of financial assistance and grants that aim to assist regions in carrying out government and development functions (Iskandar, 2021; Kementerian Keuangan, 2020; Yulianadewi, Johanis, & Nurdiana, 2022)

The level of regional financial capability is often used to assess the fiscal independence of a region, namely, the extent to which the region is dependent on central assistance. Regions with a high PAD are considered more independent and able to run government and regional development more effectively and efficiently. Overall, high regional financial capability reflects optimized regional economic potential and good financial management, thus contributing to community welfare and sustainable regional economic growth. This capability is also closely linked to regional autonomy, where regions have greater freedom and responsibility for managing their own resources and finances (Dilliana, Gayatri, Ratnadi, & Wirajaya, 2019a; Makhya, Usman, Warsono, & Mukhlis, 2023).

Fiscal Independence

Fiscal independence refers to the degree to which a local government can finance its own expenditures from its own generated revenues without relying significantly on transfers from the central or provincial government (Martins & Correia, 2021; Wibowo, Siregar, Rustiadi, & Hardiyanto, 2022). Fiscal independence is an important indicator of regional fiscal autonomy and indicates the extent to which a region can manage its finances independently and autonomously. Indicators of fiscal independence include a) the ratio of regional original revenue (PAD) to total regional revenue, which measures the proportion of own-source revenue to total revenue received by the region. The higher this ratio is, the greater the level of fiscal independence of the region (Smoke & Lewis, 1996). b) Ratio of PAD to Regional Expenditure: This ratio shows the extent to which own-source revenues can cover local expenditures. A higher ratio indicates greater fiscal independence, as the region is less dependent on transfer funds to finance expenditures (Indrawati, Satriawan, & Abdurohman, 2024).

Fiscal independence contributes to increased accountability and transparency in local financial management. Regions with high fiscal independence tend to be more responsible for managing their resources and expenditures, as they must ensure that the revenue generated is sufficient to finance the needs of the region (Rachmawaty, Oktrima, & Waluyo Jati, 2024; Strong & Yayi, 2021). Fiscal independence also allows regions to design and implement policies that better suit local needs. As such, regions can be more flexible in determining development priorities and effective budget allocations, which can in turn promote more sustainable local economic growth. Overall, fiscal independence is an important objective in fiscal decentralization because it supports local capacity development, increases community participation, and strengthens local governance.

Regional Economic Growth and Influencing Factors

Regional economic growth refers to the increase in a region's capacity to produce goods and services over time, as measured by the increase in gross regional domestic product (GRDP). Sustainable and inclusive economic growth is the main objective of regional development policies, as it directly contributes to improving the welfare of local communities. Factors that influence regional economic growth include investment, the quality of human resources, infrastructure, fiscal and regulatory policies, natural resource management, and economic and trade openness (Tri Hapsari et al., 2023).

The investment side is divided into two types. Private investment, namely, investment from the private sector, is very important because it can increase production capacity, create jobs, and increase regional income. The existence of good infrastructure, a conducive investment climate, and supportive government policies are key factors in attracting private and public investment, where government investment in infrastructure development, such as roads, bridges, electricity, and clean water, increases regional economic productivity (Ingriyani, Armeliza, & Musyaffi, 2023; Suci & Asmara, 2018). Adequate infrastructure improves connectivity and efficiency and supports economic growth. In addition, adequate education and training improve skills and labor productivity. Regions with sufficient human resources tend to be more innovative and productive, contributing positively to economic growth. Good physical infrastructure (roads, bridges, and ports) and social infrastructure (education and health) improve economic efficiency and quality of life. Easy access and good services support economic activities and attract investments (Cui, Tian, An, & Jia, 2024).

Effective fiscal policies, including good local budget management and fiscal incentives for productive sectors, can boost economic growth. Clear and straightforward regulations also create conducive business climates. The sustainable and efficient utilization of natural resources can be a significant source of economic growth. Good management avoids overexploitation and ensures long-term benefits for the region. Regions open to international trade and investment tend to experience faster economic growth. This openness increases access to markets, technologies, and capital. Overall, regional economic growth is influenced by both internal and external factors. Local governments play an important role in creating an environment that is conducive to growth through appropriate policies and effective resource management.

METHOD

The quantitative descriptive research design focuses on analyzing regional financial independence and its effect on economic growth in Bali Province from 2019--2021 (Darwin et al., 2021). The study was conducted by analyzing the regional financial statements of Bali Province from 2019–2021. The data covered in the analysis include local original income, total regional revenues, balanced funds, and economic growth during the 2019–2022 period. All data were obtained from the BPS Data of Bali Province, Financial Statements of the Provincial Government of Bali, and Financial Statements of Bank Indonesia Bali. Data analysis was conducted by examining the ratio of regional financial capabilities to the ratio of regional financial independence. Ratio forecasting uses the following equation: (a) Regional financial capability ratio (degree of fiscal decentralization). By evaluating regional financial capacities, a region's capacity to control and manage its local governments can be determined (Prakoso et al., 2019). An Assessment of the Regional Financial Capability Relationship Patterns the Regional Financial Capability Ratio (%) Relationship Patterns 0.00–10.00 Very Less, 10.01–20.00 Less, 20.01–30.00 Enough, 40.01–50.00 Good, and >50.00 Excellent (Putera, 2019). The DDF can be formulated as follows:

$$\mathrm{DDFi} = \frac{\text{Locally-generated revenue}}{\text{total regional revenue}} \mathrm{x}100\% \quad (1)$$

(b) Regional financial independence ratio (degree of fiscal autonomy). The ability of local governments to increase PAD through local taxes, various regional fiber charges, and development areas is referred to as "local fiscal independence." Functional fiscal independence is a prerequisite for realizing these development areas. The greater the level of financial independence of a region is, the greater the community's participation in paying regional taxes and levies, which are components of PAD. The ratio is measured as a percentage (%), and the pattern is divided into four scales, namely, 0–25: Instructive; > 25–50: Consultative; > 50–75: Participatory; and > 75–100: Delegative. The following formula represents the regional financial independence ratio:

$$DOFi = \frac{\text{Locally-generated revenue}}{\text{balancing funding}} x100\% \quad (2)$$

Multiple linear regression is the next model used to estimate how much variable Y will change if X changes (Adnyana, 2021). The following is an explanation of the equation for multiple linear regression:

$$\mathrm{Yit} = \mathrm{a} + \mathrm{b1X1} + \mathrm{b2X2} + \mathrm{eit} \quad (3)$$

Remarks:
Yit : Economic Growth
X1 : Administrative autonomy level
X2 : Degree of fiscal autonomy
Eit : Disruptive variables not included in Model A: Constants b1 and b2.

The following formulation can be used to express the coefficient of economic growth, as determined by the comparison of gross regional domestic product (GRDP) based on the method of production and constant prices (Candra et al., 2018).

$$\mathrm{Yit} = \frac{\mathrm{PDRBit} - \mathrm{PDRBit} - 1}{\mathrm{PDRBit} - 1} x100\% \quad (4)$$

Remarks:
Yi : Economic Growth
PDRBit : Gross regional domestic product in year i
PDRBit-1: Gross regional domestic product in year i – 1

RESULTS AND DISCUSSION

Economic growth of Bali Province from 2019--2021

The economic growth of Bali Province from 2019--2021 fluctuated. Compared with the previous quarter's performance, which decreased by -2.91 percent (YoY) in 2021, Bali's economic growth momentum increased by 0.51 percent (YoY). This increase is in line with the process of domestic economic recovery, as indicated by the increase in community mobility after the easing of the Community Activity Restriction Policy and the holding of several international events at the end of the year.

Bali's gross regional domestic product (GRDP)

As determined by the gross regional domestic product (GRDP) based on prevailing prices (ADHB), Bali's overall economy had an IDR of 56.41 trillion in the second quarter of 2021. Alternatively, if Bali's GDP was calculated via constant prices (ADHK) in 2010, it would be estimated to be Rp36.82 trillion. Overall, Bali's GDP expanded by 5.73% in the second quarter of 2021 compared with that in the first quarter (q-to-q). Bali's GDP grew by 2.83 percent in the second quarter of 2021, when it was measured annually (y-over-y). In terms of production, Category I (Provision of Accommodation and Drinking Food), which contributed 17.03%, continued to dominate Bali's economic structure in the second quarter of 2021. The household consumption component made the most significant contribution to expenditure, accounting for 54.04% of the total. If growth in the first and second quarters of 2021 is combined, Bali's GDP is estimated to increase adversely or decrease by as much as -3.73% during the first semester of 2021 (c-to-c). The economic growth of Bali Province year-over-year (y-to-y) from 2019--2021 is presented in Figure 1.

The gross regional domestic product, which is based on prevailing price data from the second quarter of 2021, shows that Bali's economy had an IDR of 56.41 trillion. Bali's GRDP was calculated in 2010 via regular pricing, reaching Rp36.82 trillion. The total added value increased by IDR 3.51 trillion (q-to-q) compared with the accomplishments of the First Quarter of 2021 and by IDR 2.55 trillion (q-to-q) compared with the accomplishments of the Second Quarter of 2020 when calculated using the current price (ADHB) (y-on-y) (Kementerian Keuangan, 2020). Although the added value increased compared with that in the first quarter of 2021, the additional value from business sectors directly related to tourism, specifically Category I (provision of accommodation and drinking food) and Category H, decreased significantly (transportation and warehousing). The value-added contribution from Category I (provision of accommodations and drinking food) exceeded 23% but has been steadily declining since the COVID-19 epidemic. In the second quarter of 2021, only 17.03% of the contribution was worth IDR 9.61 trillion. The same condition was confirmed in Category H (transportation and warehousing), which had somewhat lower added value. Only IDR 3.4 trillion was added to Category H (transport and warehousing) in the second quarter of 2021. In addition, its contribution was dramatically reduced from 9% to 6%. Other business fields, including Category A, were hit by a decline in contributions from several other business fields (Agriculture, Forestry, and Fisheries). The added value contribution from Category A (Agriculture, Forestry, and Fisheries) was IDR 8.7 trillion or 15.49% in the second quarter of 2021.

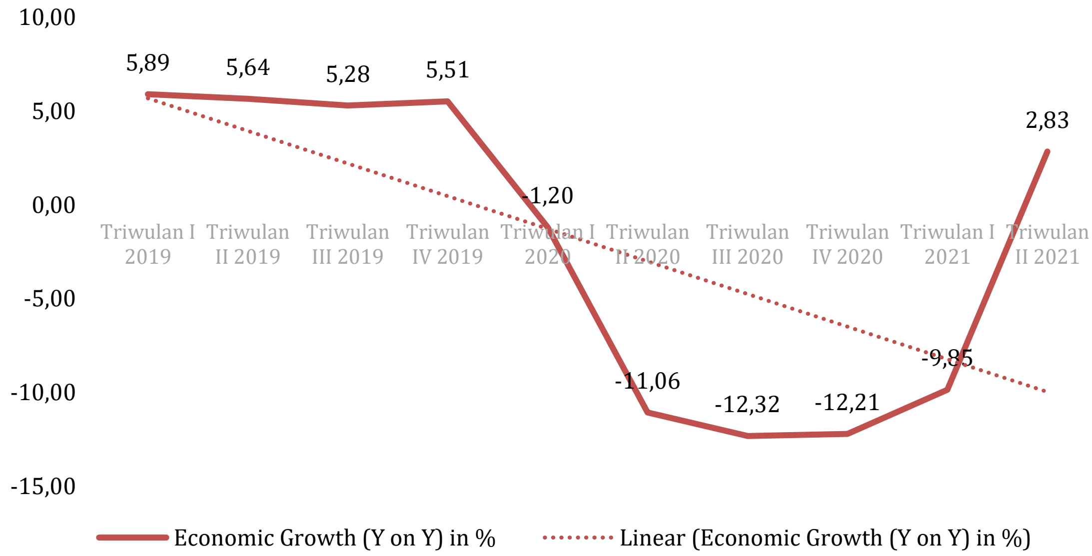

Figure 1. Bali Province's Economic Growth Year-over-Year (y-to-y) from 2019--2021

Testing between variables

Intervariable tests revealed an F test result of 5.108, which was more significant than the F test result of 3.55, with α = 5% and df = 20. These results indicate that the model variables of regional financial independence and capabilities have a significant effect on economic growth, with probability values of p = 0.018 < 0.05. Thus, regional financial independence and capabilities influence the rate of economic growth. According to the multiple linear regression analyses, regional financial capability and independence affect the economic growth rate-dependent variable, as shown in the following equation:

$$\mathrm{Yit} = \frac{0{,}05 - 3{,}091\mathrm{t} - 1}{2{,}684 - 1} x2 \quad (5)$$

The regression equation shows that a value of 0.058 implies that the economic growth rate of Bali Province will increase by 0.058 if the state of regional financial independence and capability remains the same or does not change. Additionally, a value of -3,091 is found for the regional financial capability variable (X_1), indicating that any increase in the regional financial capability ratio of 1% will decrease economic growth by 3.09%, assuming that other factors remain, and vice versa. Finally, a value of 2,684 was found for the variable of regional financial independence (X_2), indicating that each increase in the regional financial independence ratio of 1%, assuming that other factors remain constant, enhances economic growth by 2.68%. Figure 2 displays the outcomes of multiple linear regressions and tests between the variables.

Table 2. Test results between variables and multiple linear regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.058388	0.010094	5.784257	0.0000
DDF	-3.080437	1.221016	-2.522848	0.0219
DOF	2.471633	0.888904	2.780540	0.0128
R-squared	0.375406			
F-statistic	5.108850			
Prob(F-statistic)	0.018305			

Coefficient of determination test (adjusted R^2)

The coefficient of determination, with an R^2 score of 0.625, demonstrates how well the model can statistically explain the dependent variable. Accordingly, 62.5% of the economic growth in Bali Province may be attributed to factors affecting regional financial independence and capability, whereas 37.5% can be attributed to issues outside the scope of this study or to other variables not included in the model.

Discussion

Economic growth of Bali Province from 2019-2021

The economic growth of Bali Province from 2019--2021 shows a recovery trend, although it is still limited owing to the continuing COVID-19 pandemic. This improvement is closely related to the successful implementation of the vaccination program and the increased tourism activity driven by domestic tourists. However, Bali's economic performance is still constrained by travel restrictions related to the limited number of foreign tourist arrivals (Pemerintah Daerah Provinsi Bali, 2021).

Before the COVID-19 pandemic, the Bali Province economy experienced stable and positive growth. In 2019, the tourism sector became the main driver of Bali's economic growth, with a significant contribution to the gross regional domestic product (GRDP) (Susilawati et al., 2020). Tourism-related sectors, such as accommodations, food and beverages, and transportation, experienced strong growth, reflecting the vitality of Bali's tourism industry (Paramita & Putra, 2020). When the COVID-19 pandemic hit early in 2020, Bali's economy experienced a major shock. International and domestic travel restrictions led to a drastic decline in the number of tourists, which had a direct effect on tourism and related sectors. As a result, Bali's economic growth has experienced significant contraction, with a decline in GRDP of 9.31% in 2020 (BPS Bali Province, 2021). The most affected sectors are accommodations and food and beverages, which experienced a decline of up to 53.22% (Wiranatha et al., 2021). In 2021, Bali's economy began to show signs of recovery, albeit still limited. Compared with the last quarter's performance, which declined by -2.91 percent (YoY) in 2021, Bali's economic growth momentum increased by 0.51 percent (YoY). The implementation of the vaccination program and the gradual easing of social restrictions allowed for increased community mobility and economic activity. Bali's economic growth in the second quarter of 2021 reached 2.83% (year-over-year), indicating a positive recovery trend(BPS Bali Province, 2021). However, this recovery is still limited and uneven across all sectors of the economy.

Other factors contributing to Bali's economic recovery include an increase in domestic tourists and business sector adaptation to health protocols (Suardana et al., 2021). Government initiatives such as the "Work From Bali" program and the hosting of international events also played a role in boosting economic activity (Paramita & Putra, 2020). Despite showing signs of recovery, Bali's post-COVID-19 economic growth still faces challenges. High dependence on the tourism sector makes Bali's economy vulnerable to external shocks (Wiranatha et al., 2021). Overall, Bali's economy improved in 2021, but the ongoing COVID-19 pandemic still constrains it. The increased incidence of endemic diseases such as COVID-19 has paralyzed many industries (Adnyana et al., 2022). The successful implementation of immunization programs and the enhancement of domestic tourist-driven tourism activities are inextricably linked to improvements. On the other hand, Bali's economic performance is constrained by travel restrictions, which are inextricably linked to the restricted number of foreign tourist visits (Pemerintah Daerah Provinsi Bali, 2021). Therefore, economic diversification and the development of other potential sectors are important for improving Bali's economic resilience in the future (Susilawati et al., 2020).

Bali's Gross Regional Domestic Product (GRDP)

Bali's gross regional domestic product (GRDP) showed complex economic growth dynamics during the 2019-2021 period, reflecting the significant impact of the COVID-19 pandemic on the regional economic structure. In the second quarter of 2021, Bali's GRDP at current prices (ADHB) reached IDR 56.41 trillion, whereas at constant prices (ADHK) 2010, it was recorded at IDR 36.82 trillion (BPS Bali Province, 2021). This growth shows signs of economic recovery, with an expansion of 5.73% compared with the previous quarter (q-to-q) and annual growth (y-on-y) of 2.83%.

Bali's economic structure is still dominated by the tourism sector, with Category I (Accommodation and Food Supply) contributing 17.03% to GRDP in the second quarter of 2021. However, this contribution has decreased compared with that in the prepandemic period, which reached more than 23% (Badan Pusat Statistik Provinsi Bali, 2021; Badrudin & Siregar, 2015; Subadra, 2021). This decline reflects the direct impact of travel and tourism activity restrictions due to the COVID-19 pandemic. The household consumption component remains the main contributor to the expenditure side, accounting for 54.04% of the total GRDP. This shows the important role of domestic consumption in maintaining economic activity amidst the decline in the tourism sector (Amrita et al., 2021; Paramita & Putra, 2020; Purwahita, Wardhana, Ardiasa, & Winia, 2021). Nevertheless, when viewed cumulatively, Bali's GRDP in the first semester of 2021 still showed negative growth of -3.73% (c-to-c), indicating that the economic recovery is still gradual and has not fully recovered to prepandemic levels.

Sectoral analysis reveals significant declines in sectors directly related to tourism. Category H (transportation and warehousing) contributions decreased from 9% to 6%, reflecting the direct impact of mobility restrictions (Ministry of Finance, 2020). On the other hand, Category A (Agriculture, Forestry, and Fisheries) showed relative resilience, with a contribution of 15.49% or an IDR of 8.7 trillion in the second quarter of 2021, indicating the important role of the primary sector in maintaining economic stability amid external shocks (Paramita & Putra, 2020). Bali's GRDP growth trend from 2019--2021 (Figure 1) illustrates sharp fluctuations, with a significant drop in 2020 due to the pandemic, followed by signs of recovery in 2021. This pattern confirms the vulnerability of Bali's economy to external shocks and the importance of economic diversification to enhance future resilience.

Correlation between Local Financial Capability and Independence on Economic Growth

The test results between the variables reveal a significant correlation between the ability and independence of regional finances and economic growth in Bali Province. The F test confirms that the regional financial capability and independence model variables have a significant effect on economic growth (Indrawati et al., 2024). The degree of regional financial independence significantly affects how quickly an economy grows. This is because regional finance prioritizes efforts to increase regional finances sourced from local revenues to reduce reliance on the national government (Handayani et al., 2020). The financial ability of a region becomes a benchmark for regional governance in financial terms for community welfare (Prakoso, Islami, & Sugiharti, 2019). Local governments must execute regional financial independence in response to accountability, transparency, and practicality (Malizia, Feser, Renski, & Drucker, 2020; Woestho, Sulistyowati, & Sari, 2020). These results align with those of Royda & Riana (2021), who show how crucial performance assessment is in determining how accountable local governments are in managing regional finances.

Multiple linear regression analysis further reveals the complex relationships among these variables. The resulting regression equation shows that the economic growth of Bali Province will increase by 0.058 if the conditions of regional financial independence and capability remain constant. This finding is in line with the findings of Badrudin & Siregar (2015), who emphasized the importance of regional financial stability in supporting economic growth. Interestingly, the regional financial capability variable (X1) has a negative coefficient of -3.091. This indicates that every 1% increase in the ratio of regional financial capability has the potential to reduce economic growth by 3.09%, assuming that other factors remain constant. This phenomenon may reflect the complexity of the relationship between fiscal capacity and economic growth, where an increase in financial capability does not always directly translate into economic growth, especially if it is not followed by effective allocation and management (Galela, 2016; Hasanah, 2015). On the other hand, the regional financial independence variable (X2) has a positive coefficient of 2.684. This means that every 1% increase in the ratio of regional financial independence has the potential to increase economic growth by 2.68%, assuming that other factors remain constant. This finding supports the argument that greater financial independence allows local governments to be more responsive to local development needs, which in turn can boost economic growth (Suryaningsih & Oka Suryawardani, 2021; Suwandi & Warokka, 2013; Velga Eka Putri & Junaidi, 2020).

Additionally, significant results were obtained for the factors affecting regional financial independence, thus impacting the economic growth rate. This is because high local income demonstrates an element of the local government's success in managing local potential (Abreu, Comim, & Jones, 2023; Dilliana, Gayatri, Ratnadi, & Wirajaya, 2019b; Handayani, Sari, & Sulistyowati, 2021; X. Zhang & Tian, 2024). A region's financial independence is a standard for the government's capacity to finance government initiatives, development, and services to citizens who have paid taxes and levies (Dong & Mao, 2021; Gunarta & Utama, 2022; Haibo, Manu, & Somuah, 2023; Windhani, Purwaningsih, Mulyaningsih, Samudro, & Hardoyono, 2023; Xu, Cao, & Wang, 2022). Additionally, success in achieving regional autonomy is frequently linked to the magnitude of PAD receipts. Local taxes and levies, which account for the majority of PADs, should be able to pay for local government expenditures (Suryani, 2020; susi & Mispiyanti, 2020). The economic growth rate increases with improved governance of regional financial independence (Khaerati B, 2022; Zhang, Mohsin, Rasheed, Chang, & Taghizadeh-Hesary, 2021).

These results highlight the importance of a balance between local financial capability and independence in promoting economic growth. Although increased financial capability may not always be positively correlated with economic growth in the short run, financial self-sufficiency appears to have a more direct positive impact. This suggests that strategies to improve local financial self-sufficiency, such as the optimization of own-source revenues and expenditure efficiency, may be more effective in promoting economic growth than simply improving general fiscal capacity (Suwandi & Warokka, 2013).

CONCLUSION

The growth rate in Bali is influenced by various factors, including regional financial independence and capabilities. We found that the analysis of regional financial independence ratios for 2019--2021 was superficial, with a range of 0%–25% and instructive relationship patterns. Furthermore, the analysis of the regional financial capability ratios in the 2019--2021 range is relatively limited, with a range of 40.01--50.00, and a pattern of good relations is observed. Finally, we find a significant and simultaneous influence of regional financial capabilities and financial independence on the pace of economic growth. Further analysis related to predisposing factors that affect the pace of economic growth, both externally and internally, is needed.

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