ABSTRACT

This study examines the effect of local government expenditure on economic growth across regencies and municipalities on Java Island (excluding the Special Capital Region of Jakarta) during the 2020–2024 period, with the Audit Board of Indonesia (BPK) opinion serving as a moderating variable. It also incorporates demographic, employment, education, and investment variables as control variables. The analytical methods employed are Panel Data Regression and Quantile Regression (Q25, Q50, and Q75) to examine the effects of the research variables and capture variations in their impacts across different levels of the economic growth distribution. The panel data model was determined through a series of model selection tests.

The Panel Data Regression results indicate that, simultaneously, all variables significantly affect Gross Regional Domestic Product (GRDP). Partially, Local Government Expenditure (LGE), Mean Years of Schooling (MYS), and Foreign Direct Investment (FDI) have a positive and significant effect on GRDP, while the Open Unemployment Rate (OUR) has a negative and significant effect. Meanwhile, the BPK Opinion, Population Size, and Domestic Direct Investment (DDI) do not have a significant effect. Furthermore, the BPK Opinion is not proven to moderate the relationship between Local Government Expenditure and GRDP.

The Quantile Regression results reveal heterogeneity in the effects across regional groups. In regions with relatively low GRDP levels (Q25), Local Government Expenditure has a negative effect, while the interaction between Local Government Expenditure and BPK Opinion has a positive effect but is significant only at the 10% significance level. Across all quantiles, Mean Years of Schooling (MYS), Domestic Direct Investment (DDI), and Foreign Direct Investment (FDI) consistently have a positive and significant effect on GRDP, whereas Population Size has a negative and significant effect. In contrast, the BPK Opinion and the Open Unemployment Rate do not show significant effects in most quantiles. These findings suggest that human capital quality and investment are the most consistent drivers of regional economic growth, whereas the effectiveness of local government expenditure remains influenced by the characteristics of each region. Therefore, development policies should be tailored to regional economic conditions to achieve more optimal economic growth.

Keywords*: Government Expenditure, Economic Growth, BPK Opinion, Panel Data Regression, Quantile Regression.*