

# Determinants Of Financial Performance Influencing Fiscal Reserves In Indonesia: The Moderating Role Of Expenditure Harmony (a Study of All Second-Level Local Governments in Indonesia)

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## ABSTRACT

*This research aims to determine the effect of regional governments finance independency, regional governments financial effectiveness, and SiLPA growth on fiscal reserves in Indonesian Local Governments with Expenditure Harmony as a moderating variable. The population used in this study is all Local Governments in Indonesia with a research period from 2018 to 2022. The results of this study show that regional governments finance independency and regional governments financial effectiveness have a significant direct effect on fiscal reserves in Indonesia, while SiLPA growth does not have an effect on fiscal reserves in Indonesia. Regional governments financial independency and SiLPA growth moderated by expenditure harmony do not have an effect on fiscal reserves in Indonesia, while regional governments financial effectiveness moderated by expenditure harmony has an effect on fiscal reserves in Indonesia.*

## ABSTRAK

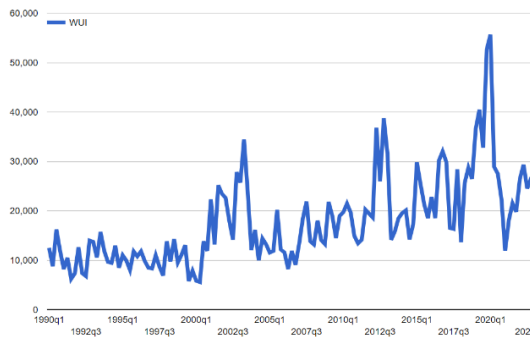
*Penelitian ini bertujuan untuk menganalisis pengaruh kemandirian keuangan daerah, efektivitas keuangan daerah, dan pertumbuhan Sisa Lebih Perhitungan Anggaran (SiLPA) terhadap cadangan fiskal pada pemerintah daerah di Indonesia, dengan keserasian belanja sebagai variabel moderasi. Populasi dalam penelitian ini mencakup seluruh pemerintah daerah di Indonesia dengan periode pengamatan tahun 2018 hingga 2022. Hasil penelitian menunjukkan bahwa kemandirian keuangan daerah dan efektivitas keuangan daerah memiliki pengaruh langsung yang signifikan terhadap cadangan fiskal di Indonesia, sedangkan pertumbuhan SiLPA tidak berpengaruh terhadap cadangan fiskal. Selain itu, kemandirian keuangan daerah dan pertumbuhan SiLPA yang dimoderasi oleh keserasian belanja tidak berpengaruh terhadap cadangan fiskal. Sementara itu, efektivitas keuangan daerah yang dimoderasi oleh keserasian belanja terbukti berpengaruh terhadap cadangan fiskal di Indonesia.*



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## INTRODUCTION

Economic uncertainty is one of the main challenges faced by governments worldwide. This is supported by the World Bank in its report entitled “*Is a Global Recession Imminent?*” (Guénette, 2022). In the report, the World Bank predicts that the likelihood of a global economic recession is very high, primarily due to aggressive interest rate hikes implemented by central banks across various countries (Guénette, 2022; Rodani, 2022). President Joko Widodo, during a briefing to ministers, heads of institutions, regional leaders, military commanders, and police chiefs, stated that current global economic uncertainty is highly concerning for many countries, including Indonesia. This uncertainty is driven by several factors, one of which is the COVID-19 pandemic (2022). Economic uncertainty can lead to various risks, such as economic slowdown, declining investment performance, stagnation in infrastructure development, and weakening purchasing power, all of which indirectly affect state revenues (Ade, 2022).



**Figure 1.** *World Uncertainty Index 1990-2023*

Source : <https://worlduncertaintyindex.com/>

The figure above illustrates the condition of world economic uncertainty which is fluctuating, however a significant increase occurred in 2018–2021 where in that year there was a trade war between China and the United States related to international trade and the occurrence of the Covid-19 outbreak.

Covid-19 is one of the significant examples of economic uncertainty, the outbreak appeared suddenly and was first detected in China at the end of 2019, the outbreak has a fast rate of virus spread so that it caused a global health crisis that has never occurred before. The number of infected cases as well as the death rate continued to increase rapidly, until on March 11, 2020 the Covid-19 endemic was declared an international threat. The Covid-19 pandemic greatly affected global health and also indirectly affected the economy of countries affected by the Covid-19 outbreak and Indonesia became one of them. This created economic uncertainty due to limited data and other obstacles in predicting the impact and duration of the pandemic.

Government responsiveness is very necessary in taking steps regarding the occurrence of the Covid-19 outbreak, however even so the policies carried out by the government also create economic uncertainty. Policies such as Large-Scale Social Restrictions (PSBB), economic stimulus, and other steps and policies that can change or be expanded in accordance with the development of the situation and economic conditions. Based on data from the Central Statistics Agency, Indonesia experienced a contraction in economic growth in 2020 of -2.07 percent. This caused Indonesia's economy to experience deflation because economic development in Indonesia has less stable movement. Large-Scale Social Restrictions (PSBB) implemented since 2020 and lockdowns in several cities caused economic decline to continue so that it caused companies to carry out layoffs because they were unable to pay wages. Not only that, the decline also became a reason for many companies to go bankrupt. The economic contraction was caused by a decrease in consumption both for daily needs and consumption from the transportation sector caused by PSBB rules where people were very limited in making trips both domestic and international (RI, 2022).

Government performance has an important role in responding to economic uncertainty. One aspect that can influence government performance is the aspect of government finance. The government financial aspect includes various elements such as government budgets, fiscal policy, public debt management, and sources of government revenue. Good management of state finances can help the government to face economic uncertainty more effectively, on the contrary poor or inappropriate management of state finances can worsen the impact of economic uncertainty.

One of the policies that has been carried out by the government in terms of overcoming economic conditions due to the Covid-19 outbreak is by adjusting the allocation of regional expenditure budgets through rationalization and changes in allocation in the use of APBN funds. As well as

fiscal policies that are expected to be able to move back the business of business actors including MSMEs, the policies include policies on accelerating government spending, income tax relaxation, national economic recovery with refocusing and relaxation of the APBN (Ministry of Finance of the Republic of Indonesia, 2022). APBN refocusing is implemented by postponing or eliminating activities that are not priorities and not relevant to current conditions, in addition reallocation is also applied to several agencies or institutions such as for example the budget for the ministry of health which increased from 5 percent to 9.4 percent of the APBN, the budget is directed for vaccination programs, strengthening 3T (testing, tracing, and treatment), claims for the cost of treating Covid-19 patients, provision of medicines, and incentives for medical personnel. The government also shows its concern for business actors by providing leniencies such as tax incentives and social assistance (Ministry of Finance of the Republic of Indonesia, 2021). Budget reallocation and refocusing carried out by the government caused a significant increase in unexpected expenditure posts.



**Figure 2.** Realization and Budget of Unexpected Expenditure Figure 2016–2020

Source: Regional Budget Data Portal ([djkp.kemenkeu.go.id](http://djkp.kemenkeu.go.id))

Based on the figure it can be concluded that unexpected expenditures of regional governments experienced a significant increase between budget and realization from 2019 to 2020, which was caused by the Covid-19 outbreak. As written in PERMENDAGRI No. 39 of 2020 Article 2 paragraphs (1) and (2), in responding to Covid-19 Regional Governments are asked to determine financial policies namely prioritizing the use of allocation of certain activity budgets (Refocusing), changes in budget allocation through optimizing the use of available unexpected expenditures (BTT) in the 2020 APBD. In the event that BTT is insufficient, in addition to being asked to carry out refocusing and reallocation, Regional Governments can utilize available cash through changes to regional head regulations regarding the elaboration of APBD, where the results of the allocation of budget rescheduling of program achievements and activities are transferred to unexpected expenditures. In addition there are also policies in the form of incentives to handle the economic impact due to the Covid-19 pandemic in the form of reductions, relief, and exemptions in certain matters on principal regional taxes, regional levies, extension of the implementation time for fulfillment of obligations, and extension of revolving fund obligations (PERMENDAGRI No. 39 of 2020).

The Covid-19 pandemic is the main cause of economic uncertainty which then creates a significant increase in unexpected expenditures, requiring Regional Governments to pay attention to their performance especially in the financial aspect in making predictions, planning and implementing mitigation related to the possibility of economic uncertainty in the future. One of the

efforts that can be carried out by local governments in order to prepare themselves for uncertainty is by planning and implementing fiscal reserves or what is also called fiscal reserves.

Fiscal reserves are general fund balances or total expenditure funds that have not been determined for their use, which have the purpose of meeting daily government cash flow needs as well as for precautionary purposes and also as a financial stabilization tool when there is a decline in the economic cycle and/or to overcome the consequences of other unexpected events (Evgenia Gorina, 2019). In addition, the Director of Development Prospects of the World Bank, Ayhan Kose said that fiscal reserves are considered to have a fairly important role in facing growth prospects or uncertain conditions, limited policy choices and tightening global financial conditions (Kose, 2015).



**Figure 3.** *Fiscal Reserves Amount Figure in Indonesia 2018–2022*

Source: *Regional Budget Data Portal (djpk.kemenkeu.go.id)*

Based on the figure it can be concluded that the amount of reserve fund formation experienced a significant decrease in 2020 where in that year Indonesia was experiencing economic turmoil caused by economic uncertainty due to the Covid-19 outbreak. The decrease that occurred in the reserve fund balance was the result of government policies in responding to economic turmoil such as tax relaxation which will have an impact on the amount of PAD realized, the cessation of economic circulation due to PSBB so that PAD sourced from the industrial sector such as restaurant taxes or hotel taxes decreased, as well as other policies. Fiscal reserves or reserve funds which are one of the financial stabilization tools when economic uncertainty or economic cycle decline occurs become one of the reasons related to the importance of forming reserve funds. With attention to the real condition of Indonesia's economy after being hit by the Covid-19 pandemic and the importance of fiscal reserves in order to manage fluctuations in revenue and expenditure without disrupting the provision of goods or services for the public or risk mitigation when economic decline occurs and in an effort to maintain healthy, stable, prudent, and sustainable fiscal management, it needs to be supported by the performance of each regional government because the success of a country cannot be separated from the performance or ability of leaders in each region in the country in planning and allocating regional funds to support public welfare, economic development, and also the readiness of the government in facing unexpected financial shocks. The uncertain conditions experienced by Indonesia at this time become valuable experience related to how important the government's ability is to show its performance which is the output or result of activities or programs that will or have been achieved in relation to the use of the budget. Government financial performance itself can be divided into two types, namely financial performance and non-financial performance, financial performance can be assessed from various aspects such as using regional financial independence ratios, regional financial effectiveness ratios, regional financial efficiency ratios, activity ratios, debt service coverage ratio (DSCR), growth ratios, and other financial ratios

(Handayani, 2018). Meanwhile non-financial performance can be measured from the level of public service quality or IKM, the level of community welfare, as well as the success of policies measured through public satisfaction (Zarman Zikri, 2016).

In measuring the amount of reserve fund formation, one of the determining indicators is the amount of total regional revenue in which there is PAD as one component of revenue, where then the amount of PAD will be one of the instruments for measuring financial performance, so in this study the author uses financial performance as an indicator of factors affecting fiscal reserves in Indonesia. The ratios used to test government financial performance that will be studied are regional financial independence ratios, regional financial effectiveness ratios and financial growth ratios which in this case are assessed from the growth of SiLPA (Surachman & Handayani, 2020).

Regional financial independence measured through the ability of regions to meet their needs without depending on the central government, the higher the level of independence of a region then the region is said to be capable in managing its finances independently which will then provide flexibility for local governments to regulate their own finances. The flexibility owned by local governments in allocating resources will affect the amount of funds that can be set aside as reserve funds (Lewis, 2018).

Regional financial effectiveness which describes the ability of the government in collecting PAD or its real potential from revenue targets. A high level of effectiveness indicates that the local government has succeeded in optimizing existing resources to explore revenue potential and can manage its finances effectively and tends to have a budget surplus which can then be used as a source in forming fiscal reserves which can then be used to overcome emergency financial challenges in the future as a manifestation or effort of the stabilization function especially in facing economic uncertainty in the future (Gabriela Esterika Peta, 2023) (Musgrave, 1989).

SiLPA growth becomes one reflection of the ability of a local government in managing its finances both revenue and expenditure where the existence of a surplus provides flexibility for local governments to increase their reserve funds which can be used to face uncertainty or certain economic conditions such as to support certain projects or cover urgent needs without the need to involve loans or additional funds. Fiscal growth not only reflects financial performance but also strengthens the ability of a region in maintaining fiscal stability through reserve funds (Gorina, Maher, & Park, 2019).

Based on the description above, it can be assumed that financial independence, regional financial effectiveness and SiLPA growth have an influence on the amount of funds reserved into reserve funds or also called fiscal reserves. The influence of the level of financial independence, effectiveness, and SiLPA growth can be weakened or strengthened by expenditure harmony because when budget allocation is dominated by capital expenditure such as for infrastructure and long-term investment, this will increase the capacity of local governments in generating PAD in the future, where if PAD can be realized according to its real potential then the level of independence and effectiveness will also increase, as well as the level of SiLPA growth which is inseparable from the realization of PAD. Thus, appropriate or harmonious expenditure budgeting can strengthen or weaken the influence of regional financial independence, regional financial effectiveness, and SiLPA growth in influencing fiscal reserves in Indonesia. Seeing the importance of fiscal reserves which is supported by the role or performance of local governments in responding to economic uncertainty that may occur, the researcher is interested in examining Financial Performance Factors Affecting Fiscal Reserves in Indonesia Moderated by Expenditure Harmony (Study Conducted Across All Second-Level Local Governments in Indonesia).

## RESEARCH METHOD

This study uses a quantitative approach, where the study utilizes causal relationships, namely cause-and-effect relationships. Therefore, this study includes exogenous variables, also called independent variables, and endogenous variables, also called dependent variables. Quantitative research aims to test theories, establish facts, demonstrate relationships between variables, provide statistical descriptions, and describe the results (Sugiyono, 2021).

This study examines the influence of exogenous variables, namely regional financial independence, the effectiveness of autonomous regional finances, and the growth of SiLPA on endogenous variables, namely fiscal reserves, which are moderated by the moderating variable, namely expenditure harmony or budget harmony, where the influence of each variable is tested using path analysis techniques to test the influence of each exogenous variable on endogenous variables directly and indirectly, and using MRA to test the influence of exogenous variables on endogenous variables that are influenced by the effects of moderating variables.

### Research Variables

#### a. Exogenous Variables

Exogenous variables, or independent variables, are variables that cause the emergence or change of endogenous variables (Sugiyono, 2021). The exogenous variables in this study are regional financial independence or regional autonomy, the effectiveness of autonomous regional finances, and the growth of the SiLPA (Surplus) or surplus in the regional government budget.

#### b. Endogenous Variables

Endogenous variables, or dependent variables, are variables influenced by or resulting from the presence of exogenous variables (Sugiyono, 2021). The endogenous variable in this study is fiscal reserves.

#### c. Moderating Variables

A moderating variable is a variable that influences, either strengthening or weakening the relationship between exogenous and endogenous variables (Sugiyono, 2021). The moderating variable in this study is budget harmony.

The population in a study plays a crucial role because it is the source of information that will then be analyzed to test the research hypothesis. Population can be defined as all elements in a study, including objects and subjects with specific characteristics (Amin, Garancang, & Abunawas, 2023). The population in this study is the Government Financial Reports of Regency and City Governments in Indonesia for five years, from 2018 to 2022. The sample is a subset of the population and its characteristics (Sugiyono, 2021). In this study, the sampling technique used was saturation sampling, where all members of the population were sampled. Therefore, all regency and city governments in Indonesia were included in the sample. The regency and city governments in Indonesia, consisting of 416 regencies and 98 cities, were also included in the sample.

## RESULT and DISCUSSION

### Chow Test

**Table 1** *Chow Test Results*

Cross-section Chi-square	Statistics	df	Prob.	Alpha	Decision
Model 1	2.053373	480,1921	0.0000	0.05	Fixed Effect
Model 2	2.038914	480,1917	0.0000	0.05	Fixed Effect

Model 1 independent variablesKKD, EKD, SLP, Model 2 independent variablesKKD, EKD, SLP, Z, KKD\*Z, EKD\*Z, SLP\*Z

Source: *Eviews output results 12, 2024*

Based on the table above, the results of the Chow test show that models 1 and 2 have a probability (p-value) of the Cross-section Chi-square which is smaller than the 5% significance level (0.0000 < 0.05). Based on these data, it can be concluded that H0 is rejected and the fixed effect model is better than the common effect model in models 1 and 2. After the Chow test is completed, the next step is to test between the fixed effect and random effect methods using the Hausman test.

### Hausman test

**Table 2** Hausman Test Results

Random cross-section	Chi-Sq. Statistic	Chi-Sq. df	Prob.	Alpha	Decision
Model 1	29.297134	3	0.0000	0.05	Fixed Effect
Model 2	43.848843	7	0.0000	0.05	Fixed Effect

Model 1 independent variablesKKD, EKD, SLP, Model 2 independent variablesKKD, EKD, SLP, Z, KKD\*Z, EKD\*Z, SLP\*Z

Source: *Eviews output results 12, 2024*

Based on the table above, show in model 1 and model 2, the probability value (p-value) of the random cross-section is less than the significance level of 5% (0.0000 < 0.05). Based on these data, it can be concluded that the fixed effect model is better than the random effect model in models 1 and 2. After the Hausman test is completed, the next step is to test the common effect and random effect methods using the Lagrange multiplier test.

### Lagrange Multiplier Test

**Table 3** Lagrange Multiplier Test Results

Breusch-Pagan Both	Chi-Sq. Statistic	Prob.	Alpha	Decision
Model 1	126.6802	0.0000	0.05	Random Effect
Model 2	119.6023	0.0000	0.05	Random Effect

Model 1 independent variablesKKD, EKD, SLP, Model 2 independent variablesKKD, EKD, SLP, Z, KKD\*Z, EKD\*Z, SLP\*Z

Source: *Eviews output results 12, 2024*

Based on the table above, the results of the Lagrange Multiplier test, obtained the Breusch-Pagan (BP) probability value from the 5% significance level, indicating that in model 1 and model 2 Breusch-Pagan Both has a probability value (p-value) less than significance level of 5% (0.0000 < 0.05), then according to the decision-making provisions, H0 is rejected or the random effect method is better than the common effect method in model 1 and model 2. Based on the results of the Chow test, Hausman test, and Lagrange multiplier test, it states that the fixed effect method is the appropriate model for model 1 and model 2.

## Classical Assumption Test

**Table 4** Jarque-Bera Normality Test Results

Data Panel	Jarque-Bera	Prob.	Alpha	Decision
Model 1	3,983+08	0.0000	0.05	Abnormal
Model 2	3.96+08	0.0000	0.05	Abnormal

Model 1 independent variables KKD, EKD, SLP, Model 2 independent variables KKD, EKD, SLP, Z, KKD\*Z, EKD\*Z, SLP\*Z

Source: Eviews output results 12, 2024

Based on the Eviews output presented in the table above, the Sig. value of the normality test using the Jarque-Bera method for each model with a value of *probability* which is smaller than alpha ( $0.00000 < 0.05$ ), it can be concluded that the residual data is not normally distributed in each model. Because the data is panel data, the normality of the data is assumed to have been met because the panel data has more than 100 observation members, this is in accordance with the central limit theorem which states that if there is  $n$  more than 30 then the data is stated to have a tendency to be normally distributed (Mclave, 2015). Based on this, further testing can be carried out.

## Autocorrelation Test

**Table 5** Breusch and Godfrey Statistical Test

Breusch-Godfrey Serial Correlation LM Test	Obs*R-squared	Chi-Square Prob.	Decision
Model 1	1538,976	0.0000	There is no autocorrelation
Model 2	1467,296	0.0000	There is Autocorrelation

Model 1 independent variables KKD, EKD, SLP, Model 2 independent variables KKD, EKD, SLP, Z, KKD\*Z, EKD\*Z, SLP\*Z

Source: Eviews output results 12, 2024

Based on the Eviews output presented in the table above, the Sig. value of the autocorrelation test using the Breusch and Godfrey method in model 1 and model 2 with a value of *probability* which is smaller than alpha 5% ( $0.0000 < 0.05$ ), it can be concluded that  $H_0$  is rejected, which means that there is autocorrelation in models 1 and 2. To overcome this problem, the method used EGLS panels (Cross-section weights).

## Simultaneous Hypothesis Test Model 1

Testing Simultaneous hypothesis is a hypothesis test that aims to find out whether the independent variables together or simultaneously have a significant or no significant effect on the dependent variable.

Hypothesis:

$H_0$ : Regional Financial Independence (KKD), Regional Financial Effectiveness (EKD), Growth of SiLPA (SLP) simultaneously has no effect on Fiscal *riiceieroiice* (FR);

$H_1$ : Regional Financial Independence (KKD), Regional Financial Effectiveness (EKD), Growth of SiLPA (SLP) simultaneously affect Fiscal *riiceieroiice* (FR).

Test statistics:

Test at the significance level ( $\alpha$ ) = 10%.

The criteria used are as follows:

Reject  $H_0$  and accept  $H_1$  if  $Prob. < 0.1$ ; or

Accept  $H_0$  and reject  $H_1$  if  $Prob. > 0.1$ .

By using the SPSS application program, the following Prob. values were obtained:

**Table 6 Simultaneous Hypothesis Testing Model 1**

Root MSE	13.12855	R-squared	0.402186
Mean dependent variable	4.040463	Adjusted R-squared	0.251876
SD dependent var	16.50213	SE of regression	14.68963
Sum squared residual	414523.2	F-statistic	2.675719
Durbin-Watson stat	1.671781	Prob(F-statistic)	0.000000

Source: *Eviews output results 12, 2024*

Based on the table above, the probability (Prob.) value is 0.000000. Since this value is lower than the significance level ( $\alpha$ ) of 10% ( $0.000000 < 0.10$ ),  $H_0$  is rejected and  $H_1$  is accepted. This indicates that Regional Financial Independence (KKD), Regional Financial Effectiveness (EKD), and SiLPA Growth (SLP) simultaneously have a significant effect on Fiscal Reserves (FR).

### Simultaneous Hypothesis Test Model 2

Simultaneous hypothesis testing aims to determine whether the independent variables collectively have a significant effect on the dependent variable..

Hypothesis:

H0: Regional Financial Independence (KKD), Regional Financial Effectiveness (EKD), SiLPA Growth (SLP), Budget Harmony (Z), Regional Financial Independence is moderated by Budget Harmony (KKD\*Z), Regional Financial Effectiveness is moderated by Budget Harmony (EKD\*Z), And SiLPA growth is moderated by Budget Harmony (SLP\*Z) simultaneously has no effect on Fiscal *riiceierviice* (FR);

H1: Regional Financial Independence (KKD), Regional Financial Effectiveness (EKD), SiLPA Growth (SLP), Budget Harmony (Z), Regional Financial Independence is moderated by Budget Harmony (KKD\*Z), Regional Financial Effectiveness is moderated by Budget Harmony (EKD\*Z), And SiLPA growth is moderated by Budget Harmony (SLP\*Z) simultaneously affect Fiscal *riiceierviice* (FR).

Test statistics:

Test at the significance level ( $\alpha$ ) = 10%.

The criteria used are as follows:

Reject H0 and accept H1 if  $Prob. < 0.1$ ; or

Accept H0 and reject H1 if  $Prob. > 0.1$ .

By using the SPSS application program, the following Prob. values were obtained:

**Table 7 Simultaneous Hypothesis Testing Model 2**

Root MSE	13.25282	R-squared	0.429242
Mean dependent variable	4.134810	Adjusted R-squared	0.284245
SD dependent var	17.06299	SE of regression	14.84413
Sum squared residual	422407.6	F-statistic	2.960355
Durbin-Watson stat	1.630102	Prob(F-statistic)	0.000000

Source: *Eviews output results 12, 2024*

Based on the table above, the Prob. value is 0.000000. Based on these results, it can be seen that the Prob. value is smaller than the significance level ( $\alpha$ ) = 10% ( $0.000000 < 0.1$ ), so  $H_0$  is rejected and  $H_1$  is accepted, meaning that there is a significant influence of Regional Financial Independence

(KKD), Regional Financial Effectiveness (EKD), SiLPA Growth (SLP), Budget Harmony (Z), Regional Financial Independence moderated by Budget Harmony (KKD\*Z), Regional Financial Effectiveness moderated by Budget Harmony (EKD\*Z), and SiLPA Growth moderated by Budget Harmony (SLP\*Z) simultaneously on Fiscal reserves (FR).

## DISCUSSION

Based on the analysis and discussion outlined in the previous chapters, it can be concluded that the results of this study support the hypothesis that Regional Financial Independence, Regional Financial Effectiveness, Regional Financial Effectiveness moderated by Budget Harmony, Regional Financial Independence through Regional Financial Effectiveness and Regional Financial Effectiveness through Regional Financial Independence have a significant influence on Fiscal Reserves in Indonesia. Meanwhile, for SiLPA Growth, Regional Financial Independence moderated by Budget Harmony, and SiLPA Growth moderated by Budget Harmony do not have a significant influence on Fiscal Reserves in Indonesia. The results can also be summarized in detail as follows:

**Regional Financial Independence (KKD) has a significant influence on Fiscal Reserves (FR),** Based on the analysis that has been carried out, the research hypothesis states that Regional Financial Independence has a direct impact on Fiscal Reserves. The result shows a positive result, or in other words, the hypothesis is accepted. This result can be seen from the Prob. value of 0.0183, this value is smaller than the significance level ( $\alpha$ ) = 10% (0.0183 < 0.1), which means that Regional Financial Independence (KKD) has a significant influence on Fiscal Reserves (FR). This result is in line with research conducted by Lewis in 2018, which states that regional financial independence has increased as a result of the presence of regional financial independence. The increase in regional financial independence is a result of the presence of regional financial independence. The increase in regional financial independence is a result of the presence of regional financial independence. The increase in regional financial independence is a result of the presence of regional financial independence.

**Regional Financial Effectiveness (EKD) has a significant influence on Fiscal Reserves (FR),** Based on the analysis that has been conducted, the research hypothesis stating that Regional Financial Effectiveness has a direct influence on Fiscal Reserves has a positive result or in other words the hypothesis is accepted. This result can be seen from the Prob. value of 0.0788, this value is smaller than the significance level ( $\alpha$ ) = 10% (0.0788 < 0.1), which means that Regional Financial Effectiveness (EKD) has a significant influence on Fiscal Reserves (FR). This result is in line with Public Finance Theory developed by Richard A. Musgrave who said that one of the functions of government is the stabilization function, furthermore the theory of finance states that local governments manage their finances with an effective budgeting system. The statement highlights that local governments manage their finances with an effective budgeting system. The statement highlights that local governments manage their finances with an effective budgeting system. The statement highlights that local governments manage their finances with an effective budgeting system. The statement highlights that local governments manage their finances with an effective budgeting system.

**The growth of SiLPA (SLP) does not have a significant impact on Fiscal Reserves (FR),** Based on the analysis that has been carried out, the research hypothesis states that the growth of SiLPA has a significant influence on Fiscal Reserves. The result shows a non-positive result, in other words the hypothesis is rejected. The result can be seen from the Prob. value of 0.4430, this value is greater than the significance level ( $\alpha$ ) = 10% (0.4430 > 0.1), which means that the growth of SiLPA (SLP) does not have a significant impact on Fiscal Reserves (FR).

have a significant effect on Fiscal reserves (FR). The rejection of the hypothesis can be caused by other factors that are not used as research material or further consideration such as non-financial performance where it is possible that when SiLPA growth occurs, the government then allocates its funds for other purposes such as financing unexpected programs, paying off debts, or other things that are the main priority in each regional government in accordance with the achievement targets which then influence policies or decisions related to budget allocation or other factors such as the state of world politics.

**Regional Financial Independence moderated by Budget Harmony (KKD\*Z) does not have a significant influence on Fiscal Reserves (FR)**, Based on the analysis that has been carried out, the research hypothesis states that Regional Financial Independence moderated by Budget Harmony has an influence on *Fiscal Reserve* in Indonesia does not have positive results in other words the hypothesis is rejected. This can be seen from the Prob. value of 0.2086, where this value is greater than the significance level ( $\alpha$ ) = 10% ( $0.2086 > 0.1$ ), which means that Regional Financial Independence moderated by Budget Harmony (KKD \* Z) does not have a significant effect on Fiscal reserves (FR). The rejection of the hypothesis may be due to other performance factors that were not examined in this study, in addition to Budget Harmony in Indonesia is still relatively low, based on the results of descriptive analysis in the previous month, where the average budget harmony in Indonesia is still at the not compatible level with a value of 18%, which indicates that the existing budget has not been able to support independence effectively so that the hypothesized relationship cannot be proven significantly.

**Regional Financial Effectiveness (EKD) moderated by Budget Harmony (EKD\*Z) has a significant influence on Fiscal Reserves (FR)**, Based on the analysis that has been carried out, the research hypothesis states that Regional Financial Effectiveness moderated by Budget Harmony has a significant influence on *Fiscal Reserves* in Indonesia had positive results, in other words the hypothesis was accepted. These results are in line with the argument in the previous chapter which stated that the effectiveness of finance piemithe command reflected in kihis ability to miengimanager resourcesier power where one of the ways is diwith miprioritize piengioutput where Piemda can miallocate resourcesipower kie ariea that can miimproveiefip activityiuse of funds where in this context the allocation is to capital expenditure where if Piemda mieniset a budget bishopping pibuilding limore biesar of piengiroutine expenses, then it will miendorphin pigrowthieconomy dai the area that can be assessed from kiebiP's successiemda for mierirealize the targetiand PAD which mibecome one of the benchmarks for the ratioiefiactivities so that it can then support the influence of Regional Financial Effectiveness on Fiscal Reserves in Indonesia.

**The growth of SiLPA moderated by Budget Harmony (SLP\*Z) does not have a significant impact on Fiscal Reserves (FR)**, Based on the analysis that has been done, the research hypothesis stating that SiLPA Growth moderated by Budget Harmony has an influence on Fiscal Reserves in Indonesia does not have a positive result, in other words the hypothesis is rejected. This can be seen from the Prob. value of 0.3582, this value is greater than the significance level ( $\alpha$ ) = 10% ( $0.3582 > 0.1$ ), which means that SiLPA Growth moderated by Budget Harmony (SLP \* Z) does not have a significant influence on Fiscal reserves (FR). These results can be caused by various factors, this can be caused by the average budget harmony in Indonesia which only reaches 18%, indicating that the budget is not fully aligned with regional needs and priorities. This low harmony reduces the effectiveness of SiLPA growth in influencing fiscal reserves. This rejection can also be caused by other factors not examined in this study, both other performance factors, factors such as fiscal policy, or economic conditions.

**Regional Financial Independence (KKD) through Regional Financial Effectiveness (EKD) has a significant influence on Fiscal Reserves (FR)**, Based on the results of the analysis that has been carried out, the hypothesis stating that Regional Financial Independence through Regional Financial Effectiveness has a significant influence on Fiscal Reserves has a positive result where this can be seen from the Prob. value of 0.0940, this value is smaller than the significance level ( $\alpha$ ) = 10% (0.0940 < 0.1), which means that Regional Financial Independence (KKD) has a significant influence on Fiscal reserves (FR) through Regional Financial Effectiveness (EKD).

This aligns with the supporting description in the previous chapter, where the level of independence of a region, as measured using an independence ratio scale by comparing the proportion of Regional Original Income (PAD) in meeting its needs, reflects the extent to which a regional government is independent or independent of the central government. The higher the independence value of a regional government, the greater the PAD that is successfully realized, which in turn affects the effectiveness of regional finances. This effectiveness is measured by comparing the realization of PAD revenues with the PAD revenue targets. According to public financial management theory, a region's ability to realize regional revenue targets reflects its success in managing local revenue sources, which effectively reduces dependence on the central government and increases regional independence. Regional financial independence, which is correlated with regional financial effectiveness, will then affect fiscal reserves, because a regional government that is independent and effective in managing its finances will have greater flexibility in managing its budget, which ultimately impacts the size of its reserve funds or fiscal reserves.

**Regional Financial Effectiveness (EKD) through Regional Financial Independence (EKD) has a significant influence on Fiscal Reserves (FR) in Indonesia**, Based on the results of the analysis that has been done, the hypothesis stating that Regional Financial Effectiveness through Regional Financial Independence has an influence on Fiscal Reserves has a positive result or in other words the hypothesis is accepted. This can be assessed from the Prob. value of 0.0300, this value is smaller than the significance level ( $\alpha$ ) = 10% (0.0300 < 0.1), which means) Regional Financial Effectiveness (EKD) has a significant influence on Fiscal reserves (FR) through Regional Financial Independence (KKD). These results are in line with the arguments in the previous chapters where in the context of autonomous regional governments, regional financial effectiveness refers to the region's ability to realize the target of regional original revenue (PAD), while regional financial independence refers to the ability of PAD to meet regional needs without relying on the central government. When a regional government has a high level of independence, the region is better able to regulate and compile fiscal reserves as a buffer or a form of stabilization function that the government strives to face possibilities and uncertainties in the future. In other words, local governments that are effective in realizing their PAD revenue targets will increase regional financial independence. The more effective the realization of PAD revenue, the more capable the local government is of meeting its own needs, which indicates regional financial stability and has an impact on increasing the local government's capacity to store and manage fiscal reserves better. This study also introduces novelty by examining the effect of regional financial effectiveness on fiscal reserves through regional financial independence, an aspect that has not been widely studied before. Public financial management theory supports this finding, as it suggests that regions that are able to manage and realize local revenue effectively will reduce dependence on the central government and increase regional financial flexibility and stability.

## SUGGESTION

1. Suggestions for readers, the results of this study are expected to increase knowledge related to performance factors in the level 2 Regional Government sector that can affect Fiscal Reserves in Indonesia. Especially for those interested in knowing more or in other words conducting research related to factors that affect fiscal reserves can analyze or consider independent variables either to be modified or added to the time series data so that they can see a broader, objective and varied scope in conducting research.
2. For Level 2 Regional Governments in Indonesia, the results of this study can be used as a reference and input in making future decisions in an effort to stabilize the function in facing economic uncertainty in the future.

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