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Research Article

Analysis of the Effect of Government Expenditure in the General Services Sector, Infrastructure Sector, and Domestic Investment on Economic Growth in Bali Province

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Abstract: This study is motivated by the crucial role of government spending and domestic investment (PMDN) in driving economic growth, particularly in Bali Province, which is heavily reliant on the tourism sector and vulnerable to external shocks such as the COVID-19 pandemic. The objective of this research is to analyze the influence of government expenditure in the general services and infrastructure sectors, as well as domestic investment, on Bali's economic growth during the 2014–2023 period, both simultaneously and partially. This study employs panel data combining cross-sectional and time-series data from 9 regencies/cities in Bali Province over a 10-year period (2014–2023), using a Random Effect Model (REM) approach after conducting the Chow test, Hausman test, and Lagrange Multiplier test. The results show that, simultaneously, all independent variables significantly influence economic growth. Partially, government spending in general services, infrastructure, health, and education sectors has a positive and significant effect. Meanwhile, expenditure in economic services, domestic investment (PMDN), and the COVID-19 variable have a positive but statistically insignificant effect on economic growth in Bali Province. It is recommended that local governments improve the effectiveness of economic sector spending, promote equitable distribution of domestic investment, and accelerate economic diversification to reduce dependency on tourism and strengthen regional economic resilience.

Keywords: Economic growth, government expenditure, domestic investment, COVID-19 pandemic, panel data regression.

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1. INTRODUCTION

Economic growth can be defined as the increase in a country's or region's national income or production over time. It is considered one of the primary indicators of a country's development success. Economic growth is typically measured by the Gross Domestic Product (GDP) of a country or region (Simanungkalit, E.F.B., 2020). Essentially, economic growth also refers to the long-term increase in per capita output. In the long run, this indicates an improvement in welfare, as higher per capita output provides more alternatives for the consumption of goods and services, accompanied by increased purchasing power (Rinaldi Syahputra, 2017). It also reflects the extent to which a country is capable of carrying out economic activities that generate additional income for its people over a specific period. With economic growth, it is expected that household incomes—as owners of production factors—will also increase (Suhada et al., 2022).

According to data from the Bali Provincial Statistics Agency (BPS), the economic growth rate in the province over the 2014–2023 period experienced concentrated growth. This was due to the varying levels of dependence on different economic sectors in each regency/city, with tourism playing a crucial role in driving regional income. Regencies such as Badung, Gianyar, and Denpasar City experienced sharper economic contractions due to their heavy reliance on the tourism sector. According to Paul Romer's (1990) endogenous growth theory, regions with less diversified economies are more vulnerable to external shocks because they lack alternative sectors to support the economy during crises. Bali's Gross Regional Domestic Product (GRDP) also experienced fluctuations during 2014–2023, mainly due to the impact of the COVID-19 pandemic. Before the pandemic, Bali's economic growth was relatively stable, driven primarily by tourism, followed by agriculture, fisheries, and the creative industries.

Romer's (1990) endogenous growth theory also argues that technological advancement and innovation are influenced by economic policies, investment in research and development, and knowledge accumulation. He emphasizes that knowledge and technology are the main drivers of sustainable economic growth. Meanwhile, Barro (1990) highlights that government expenditure is one of the key factors affecting economic growth, playing a role through investments in infrastructure, education, and health, which enhance long-term productivity. Additionally, in line with Keynesian theory (Keynes, 1936), government spending can stimulate aggregate demand in the short term, playing an active role in mitigating economic fluctuations. Local government expenditure is crucial in achieving sustainable development and improving public welfare. Such spending is allocated to sectors that directly impact quality of life and long-term economic growth.

According to Keynesian economics, government spending can generate a multiplier effect in the economy, where increased government expenditure boosts aggregate demand and stimulates economic growth (Mankiw, 2009:292). It also serves to achieve three main objectives: resource allocation, income distribution, and economic stabilization. Therefore, effective fiscal policy can accelerate development and reduce socio-economic disparities (Musgrave & Musgrave, 1989).

Government expenditure, categorized by its function, plays a significant role in influencing GRDP. It includes employee compensation, goods and services, capital expenditures, and other costs, grouped into nine functional categories: general public services, economic affairs, health, education, housing and public facilities, tourism and culture, public order and safety, environment, and social protection. This study focuses on five functions: general public services, economic affairs, infrastructure, health, and education.

Expenditures for general public services include administrative functions that serve as the foundation for delivering other public services. Spending in administration and development planning not only ensures smooth bureaucratic functions but also enhances regional economic competitiveness through efficient public services (Paul Romer, 1990). Effective governance and core government functions ensure continuity in service delivery and are vital in supporting sustainable development and social welfare (Simanungkalit, 2020).

Meanwhile, the economic function supports business development, job creation, and economic stability at the regional level. It includes funding for various economic activities such as infrastructure development, subsidies, research and development (R&D), and poverty reduction initiatives. These efforts aim to improve productivity through infrastructure, education, and training. Economic function expenditures can directly contribute to economic growth by fostering a conducive business climate and increasing investment (Barro, 1990).

The housing and public facilities function is prioritized due to the critical role of infrastructure in improving quality of life and interregional connectivity. Investments in this sector, including roads, bridges, clean water, sanitation systems, and adequate housing, enhance the distribution efficiency of goods and services. Government spending on infrastructure has wide-ranging multiplier effects, increases economic competitiveness, and accelerates poverty alleviation (World Bank, 1994).

Health and education functions are also central due to their role in developing human capital—an essential factor in building a healthy, productive, and educated society. Investment in these sectors significantly boosts workforce productivity and contributes to long-term economic growth (Todaro & Smith, 2015). Local government spending in health and education has a profound impact on improving public well-being (Miller & Rushton, 2017).

A study by Kutasi and Marton (2020) found that government spending on social protection, general services, and economic functions had a negative impact on economic growth. Conversely, spending on public order, environment, tourism, culture, and housing had a positive but insignificant effect. However, expenditures on health and education showed a significant positive effect on growth. These findings align with Abdillah and Primitasari

(2023), who confirmed that spending in education, health, and infrastructure significantly contributes to economic growth in Eastern Indonesia. Nonetheless, research gaps remain in terms of regional scope and sectors studied, highlighting the need for further research to understand how the effectiveness of government spending varies depending on economic conditions and regional characteristics.

Meanwhile, Domestic Investment (PMDN) plays a vital role in strengthening economic growth in countries such as Indonesia. PMDN refers to investments made by individuals or local entities to build or expand businesses, potentially creating jobs, enhancing productivity, and driving innovation (Huang & Khanna, 2003).

According to Romer's (1990) endogenous growth theory, domestic investment contributes to the accumulation of physical capital and productivity improvements through technological and innovation spillover effects, enhancing economic efficiency. Similarly, the Harrod-Domar model (Harrod, 1939; Domar, 1946) asserts that domestic investment increases production capacity and job creation, forming a foundation for sustainable growth. Compared to foreign investment, PMDN is more stable and less affected by global volatility, making it a key variable in regional development analysis.

As noted by Meilaniwati and Tannia (2021), PMDN positively influences economic growth in ASEAN-5. It strengthens domestic economic capacity, expands employment opportunities, and supports strategic sectors such as infrastructure and local industry. However, Wulantari and Haviz (2021) found that while PAD (Regional Original Revenue) and DAU (General Allocation Fund) significantly affect GRDP, PMDN's influence is positive but statistically insignificant. These conflicting findings create a research gap regarding PMDN's effectiveness in promoting economic growth, possibly due to differences in methodology, regional focus, analysis period, or the presence of dominant variables. Therefore, further studies are needed to better understand the factors influencing the effectiveness of domestic investment, especially within regional and sectoral contexts.

This study also examines the impact of the global COVID-19 pandemic on Bali's GRDP. Substantial evidence indicates that COVID-19 had a significant effect on economic growth (Pusat Kajian Anggaran DPR RI, 2020). According to a 2023 article by the Directorate General of State Assets (DJKN), Indonesia's economic growth declined from 5.02% in 2019 to 2.97% in 2020, along with a rise in unemployment from 5.28% to 7.07% in the same period.

Based on the above discussion, this study aims to understand the direct effects of budget allocations on regional economies and to provide insights into how government spending influences key sectors contributing to regional development. According to Barro (1990), government spending serves not only to provide public goods such as infrastructure and education but also to improve overall quality of life. Barro argued that increased government spending, particularly in health and education, positively affects long-term economic growth by boosting labor productivity. In line with Wagner's Law (1890), it is stated that as an economy develops and industrializes, the demand for public goods and services increases, leading to higher government expenditures. Domestic investment (PMDN) supports economic growth by generating employment, increasing productivity, and developing infrastructure. According to Romer's endogenous growth theory (1990), investments in productive sectors such as industry and technology create spillover effects that accelerate innovation and efficiency. Thus, PMDN helps strengthen the national production base, improve competitiveness, and ensure long-term economic stability.

This study is essential for understanding the impact of public investment on improving the quality of life in Bali and enhancing the province's economic competitiveness. Moreover, identifying the role of each sector in driving economic growth will inform more efficient policymaking in the future.

2. RESEARCH METHODS

This study employs a quantitative approach using panel data analysis, which integrates time series and cross-sectional data from 9 regencies/municipalities in Bali Province over the period 2014–2023. The purpose of the research is to analyze the effect of government expenditure in the sectors of general public services, economy, infrastructure, health, and education, as well as Domestic Investment (PMDN) and the COVID-19 pandemic on economic growth (measured by GRDP). The independent variables are measured in billions of rupiah, while the COVID-19 variable is treated as a dummy variable (0 for the pandemic period and 1 for the pre-pandemic period).

The data used in this study is secondary quantitative data obtained from the Central Bureau of Statistics (BPS) and the Ministry of Finance. Data collection was carried out using a non-participatory method, meaning the researcher did not interact directly with the objects of study, but relied on publicly available data. The analytical techniques include descriptive statistical analysis and panel data regression using three model approaches: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM), with model selection determined through a series of specification tests such as the Chow Test, the Hausman Test, and the Lagrange Multiplier Test.

In addition to model testing, the study also includes classical assumption tests (normality, autocorrelation, heteroscedasticity, and multicollinearity) to ensure the validity of the regression model. Hypothesis testing is conducted through the F-test to assess the simultaneous influence of all independent variables on economic growth, and the t-test to examine the partial effect of each variable. Lastly, the coefficient of determination (R^2) is used to measure the extent to which the independent variables explain variations in the dependent variable. All analyses are conducted using the natural logarithm transformation to maintain data stability and enhance model accuracy (Widarjono, 2017; Wooldridge, 2020; Sugiyono, 2019).

3. DISCUSSION AND RESULTS

Hypothesis Test Results

Simultaneous Statistical Test Results (F Test)

The F test is used to determine whether the independent variables together have a significant effect on the dependent variable.

Table 1. Results of Simultaneous Statistical Tests

F-statistic	30.17335
Prob(F-statistic)	0.000000

Source: Data processed with Eviews version 12

Based on the results of the simultaneous test in Appendix 4, the F-statistic value is 30.17335 with a Prob(F-statistic) of 0.000000, which is less than 0.05. This indicates that government expenditures in the sectors of general public services, economy, infrastructure, health, education, Domestic Investment (PMDN), and COVID-19 collectively have a significant effect on economic growth (GRDP). Thus, the hypothesis is accepted.

The t-test was conducted to determine whether the independent variables in the regression model individually have a significant effect on the dependent variable. The partial test results are described as follows:

1. Government expenditure in the general public services sector has a coefficient value of 0.047, indicating that a 1% increase in government spending in this sector would increase GRDP by 0.047%. The probability value is 0.01, which is less than 0.05, indicating a positive and significant effect of general public services spending on economic growth in regencies/cities in Bali Province. This result supports the hypothesis that such spending has a positive and significant effect on GRDP, thus the hypothesis is accepted.
2. Government expenditure in the economic sector has a coefficient value of 0.017, indicating that a 1% increase in economic sector spending would increase GRDP by 0.017%. However, the probability value is 0.22, greater than 0.05, which means this variable has a positive but not significant effect on economic growth in regencies/cities in Bali Province. This result does not support the hypothesis that economic sector spending significantly affects GRDP; therefore, the hypothesis is rejected.

3. Government expenditure in the infrastructure sector has a coefficient value of 0.022, indicating that a 1% increase in infrastructure spending would increase GRDP by 0.022%. With a probability value of 0.00, which is less than 0.05, it shows a positive and significant impact of infrastructure expenditure on regional economic growth in Bali. Thus, the hypothesis is accepted.
4. Government expenditure in the health sector has a coefficient value of 0.199, indicating that a 1% increase in health sector spending would raise GRDP by 0.199%. The probability value of 0.00 indicates a positive and significant influence, affirming the hypothesis that health sector expenditure positively and significantly affects GRDP in Bali's regencies/cities.
5. Government expenditure in the education sector shows a coefficient of 0.158, meaning a 1% increase in education spending leads to a 0.158% rise in GRDP. With a probability value of 0.00, this variable has a positive and significant effect on economic growth. This result is consistent with the hypothesis, thus the hypothesis is accepted.
6. Domestic Investment (PMDN) has a coefficient of 0.003, suggesting that a 1% increase in PMDN would raise GRDP by only 0.003%. However, the probability value is 0.39, which is greater than 0.05, indicating that PMDN has a positive but not significant impact on economic growth in Bali's regencies/cities. Therefore, the hypothesis that PMDN has a positive and significant effect is rejected.
7. COVID-19 has a coefficient of 0.001 and a probability value of 0.91, greater than 0.05. This implies that the average economic growth before (1) and after (0) the COVID-19 pandemic did not differ significantly. Thus, COVID-19 has a positive but not significant effect on economic growth in Bali, and the hypothesis is rejected.

Coefficient of Determination Test (R2)

Table 2. Results of the Determination Coefficient Test (R2)

R-squared	0.720340
Adjusted R-squared	0.696467

Source: Data processed with Eviews version 12

Based on the results in Table 2, the adjusted R-squared value is 0.6964. This shows that government spending in the public service, economic, infrastructure, health, education, domestic investment and Covid-19 sectors has an effect on the economic growth of districts/cities in Bali Province by 69.64%. The remaining 30.36% is influenced by other variables not included in the research model.

Discussion of Research Results

The Simultaneous Effect of Government Expenditure in Public Services, Economy, Infrastructure, Health, Education, Domestic Investment (PMDN), and COVID-19 on Economic Growth in Bali Province

The analysis results show that government expenditures in the sectors of public services, economy, infrastructure, health, education, PMDN, and COVID-19 have a simultaneous effect on economic growth (GRDP) in Bali Province. Government spending plays a crucial role in driving economic growth through budget allocations to strategic sectors such as infrastructure, education, health, and economic development. According to Musgrave

& Musgrave (1989), efficient public spending can enhance societal welfare and economic stability.

Spending in the public service sector contributes to the creation of effective governance, while expenditures in the economic and infrastructure sectors boost productivity and interregional connectivity. Meanwhile, investments in health and education improve the quality of human capital, which is a key driver of long-term economic growth. PMDN, as a domestic investment indicator, contributes to increased production capacity and job creation, thereby stimulating economic growth. COVID-19, on the other hand, brought about complex impacts, both negative and positive, depending on how governments responded. In certain cases, high government spending on social protection and economic recovery during the pandemic served as a stimulus for growth. Collectively, these factors influence the dynamics of economic growth in Bali Province.

The Relationship Between Public Service Sector Expenditure and Economic Growth in Bali Province

The findings confirm that strengthening core government functions—such as administration, regional financial management, development planning, and public service delivery—plays a vital role in creating a stable economic foundation. This supports Wagner's Law (1890), which states that as the economy develops, public service needs increase, prompting greater public spending and contributing to growth. In Bali, optimal public service spending strengthens regional governance, streamlines business licensing, and improves bureaucratic processes, which support other economic sectors. Therefore, consistent policies to maintain spending quality and accelerate public service digitalization should be prioritized to enhance administrative efficiency and competitiveness.

This finding aligns with previous studies by Ruslan et al. (2024), Hamdani & Mayshelly (2023), and Hermawan (2020), which found that public service sector expenditure significantly and positively affects economic growth. Adequate budget allocation in this area reflects the government's efforts to improve public service quality, essential for meeting community needs efficiently and effectively (DPR RI, n.d.).

The Relationship Between Economic Sector Expenditure and Economic Growth in Bali Province

The study shows that government spending in the economic sector has a positive but statistically insignificant effect on economic growth in Bali during 2014–2023. Although economic theory suggests such spending should boost growth by creating jobs, enhancing productivity, and stimulating business activities, the empirical results indicate otherwise. This insignificance may be due to ineffective program implementation, limited reach, or lack of supporting infrastructure and human resources. Additionally, economic sector spending often yields medium-to-long-term impacts not fully reflected within the analysis period.

Given Bali's reliance on tourism, non-tourism sectors like creative industries, integrated agriculture, or MSMEs are not yet strong enough to support GRDP. Hence, regional governments should evaluate current economic programs, enhance cooperation with local businesses, and develop affirmative policies for high-multiplier, locally grounded sectors such as crafts, agro-industry, and the digital economy.

These findings do not fully support Keynesian theory, which emphasizes the role of aggregate demand in driving economic growth. According to Tanzi and Davoodi (1997), public spending may not always be growth-enhancing if not supported by good governance. This result is consistent with Yulianti (2009), who found that government expenditure in the economic sector had no significant impact on GDP growth in both the short and long term.

The Relationship Between Infrastructure Sector Expenditure and Economic Growth in Bali Province

Government expenditure in infrastructure has a positive and significant impact on economic growth in Bali from 2014 to 2023. This confirms that public investment in physical development and facilities serves as a strategic tool for long-term economic development.

Infrastructure such as transportation and telecommunications improves the distribution of goods and services, reduces income disparities across regions, creates jobs, attracts private investment, and boosts regional competitiveness. High-quality infrastructure also enhances labor productivity and drives sustainable growth.

This result supports Barro's (1990) theory that productive public spending (infrastructure, education, health) contributes to economic growth. Wahyudi (2020) emphasized the strategic role of infrastructure in national development. Likewise, Suminar, Hanim, and Prianto (2016) highlighted infrastructure as a key driver of productivity and efficiency through improved accessibility and reduced transportation costs.

The Relationship Between Health Sector Expenditure and Economic Growth in Bali Province

This study found that government spending in the health sector significantly and positively influences economic growth in Bali. Health investments, such as building health centers, procuring medical equipment, and implementing health programs, improve public well-being, reduce absenteeism, increase productivity, and create a socially conducive environment for economic development. In Bali, better health services also support the tourism industry by ensuring visitor safety and comfort. Therefore, continuous investment in the health sector, especially in underdeveloped areas, is essential for promoting equity and strengthening the human capital base.

This finding aligns with Barro's (1990) theory and is supported by research from Wahyudi (2020) and Suminar et al. (2016), which highlight the strategic role of infrastructure and social sectors in long-term economic growth.

The Relationship Between Education Sector Expenditure and Economic Growth in Bali Province

Government spending in the education sector significantly and positively affects Bali's economic growth. Quality education enables people to acquire the skills needed in the modern economy, particularly in digitalization and innovation. In Bali, education supports not only the formal workforce but also entrepreneurship in creative and cultural sectors. Therefore, policies should prioritize not only access but also the quality of teaching, school infrastructure, teacher training, and vocational education tailored to local economic needs.

This result is consistent with Barro's (1990) theory and supported by Siringoringo & Purwono (2021), as well as Abdillah and Primitasari (2023), who found that education expenditure positively impacts economic growth through human capital development.

The Relationship Between Domestic Investment (PMDN) and Economic Growth in Bali Province

The study reveals that while PMDN positively affects economic growth, the impact is statistically insignificant. This may be due to investment concentration in certain areas like Badung and Denpasar, resulting in limited spillover effects. Additionally, if the investment is capital-intensive rather than labor-intensive, the impact on household consumption and value creation is limited. Local governments should improve investment climate policies, especially for underdeveloped regions and high-potential local sectors such as fisheries, organic agriculture, and renewable energy.

This aligns with Romer's (1990) endogenous growth theory, which states that investment must be accompanied by innovation and technology diffusion to spur growth. The results are also consistent with Ayunda & Sari (2021) and Fauzy & Aimon (2019), who found PMDN had no significant impact on regional economic growth.

The Relationship Between COVID-19 and Economic Growth in Bali Province

Although COVID-19 significantly impacted economic activity in 2020, this study found no statistically significant effect from the COVID-19 dummy variable. This may be because fiscal stimulus, social assistance, and national recovery programs helped stabilize the economy afterward. Also, the dummy variable may not fully capture the severity or variation of the pandemic across regions and time. Future research should use more specific indicators, such as case counts or unemployment rates.

Nonetheless, this finding reinforces the need for economic diversification in Bali. The regional government should promote digital economy, integrated agriculture, and creative industries to build a more resilient economy. These results are in line with Kainama et al. (2022) and Hardi (2022), who also found COVID-19 had no significant impact on economic growth in their respective regions.

4. CONCLUSION

Simultaneously, government expenditures in the sectors of public services, economy, infrastructure, health, education, Domestic Investment (PMDN), and the COVID-19 pandemic have a significant effect on economic growth in Bali Province.

Partially, government expenditure in the public service sector has a positive and significant effect on economic growth in Bali Province. Government expenditure in the economic sector has a positive but not significant effect on economic growth. Government expenditures in the infrastructure, health, and education sectors have a positive and significant impact on economic growth. Meanwhile, Domestic Investment (PMDN) and COVID-19 have a positive but not significant effect on economic growth in Bali Province.

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