The Negative Impact of Unexpected and Transfer Expenditures on Economic Growth: An Empirical Study in East Nusa Tenggara Province, Indonesia

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Abstract

Fiscal policy serves as a vital instrument for stimulating regional economic growth, yet its effectiveness remains a critical subject of study, particularly in regions like East Nusa Tenggara (NTT) Province, which persistently faces a low-growth trap compared to other Indonesian provinces. This study aims to analyze the impact of regional expenditures, specifically operational, capital, unexpected, and transfer expenditures, on economic growth across 22 districts and cities in NTT from 2020-2024. Using a quantitative approach and saturated sampling, a panel data analysis was conducted on 110 observations. The results indicated that unexpected spending and transfer spending have a significant negative effect on economic growth. In contrast, operational and capital expenditures do not show a significant impact on growth during the study period. These findings suggest that the massive disbursement of emergency funds and inefficient transfer allocations, often absorbed for the routine consumption of goods from outside the region, hinder the local economic cycle. Consequently, it is recommended that the NTT provincial government implement participatory budgeting involving various stakeholders to minimize unpredictable costs and redirect transfer funds toward productive real sectors to break the low-growth trap.

Keywords: *Operational Expenditures, Capital Expenditures, Unexpected Expenditures, Transfer Expenditures, Economic Growth, Fiscal Policy, Indonesia*

1. Introduction

Economic growth is the primary benchmark for evaluating changes in a region's economic conditions toward a better and more sustainable future. Economic growth is a key factor driving prosperity and social well-being, with a stable growth rate reflecting an improvement in the population's quality of life. To ensure that development outcomes are felt by future generations, economic growth must proceed in harmony with environmental and social aspects in an inclusive manner. Through regional autonomy, as stipulated in Law No. 23 of 2014, which was further strengthened by Law No. 1 of 2022, regional governments are empowered to manage government affairs and the interests of local communities, including in the preparation of the Regional Revenue and Expenditure Budget (APBD).

Based on Government Regulation No. 12 of 2019, the government is required to apply the principles of transparency, accountability, and participation in the management and implementation of the Regional Budget (APBD). According to Minister of Home Affairs Regulation No. 77 of 2020, the regional expenditure structure has undergone a significant transformation into four main categories: operating expenditure, capital expenditure, unexpected expenditure, and transfer expenditure. Operating expenditure is expenditure for routine regional government activities with short-term benefits. Capital expenditure is directed at financing the procurement of fixed assets and other assets that provide sustainable long-term benefits. Meanwhile, unforeseen expenditure is allocated to address emergencies or urgent needs that cannot be predicted in advance. Transfer expenditure is regional expenditure channeled to other regional governments or village governments. This change replaces the regional expenditure structure previously regulated in Minister of Home Affairs Regulation No. 13 of 2006, namely direct expenditure and indirect expenditure. This change aims to refine the regional financial management mechanism to be more effective, efficient, and responsive to development needs, while supporting the achievement of sustainable economic growth targets. These four categories of regional expenditure have strategic, complementary roles in driving the regional economy.

Keynes emphasized that in fluctuating economic conditions, government spending serves as a driver of aggregate demand (Keynes, 1936). Increased regional spending is seen as a capital injection capable of

creating jobs and triggering a multiplier effect, where every rupiah spent by the government increases people's income exponentially through the consumption chain.

East Nusa Tenggara Province exhibits fluctuating economic growth and faces what is characterized as a low-growth trap, such as limited infrastructure, low human resource quality, and high dependence on the primary sector (TimexKupang, 2024). NTT's economic growth in the last five years was 0.84% in 2020 due to the COVID-19 pandemic, before recovering to 3.73% in 2024. Although the trend is positive, this figure is still considered low compared to the national average. Economic growth in NTT has fallen into a low-growth trap, driven by limited infrastructure, poor human resource quality, dependence on the primary sector, and a poverty rate of 18.6%, the sixth-highest in Indonesia. The high poverty rate means that the effectiveness of regional spending in driving economic growth may differ from that in other regions. Therefore, appropriate fiscal allocation is crucial in these conditions. Chandrarin et al. (2018) stated that Indonesia, as a developing country, faces significant challenges. Optimal economic growth depends not only on the budget but also on how the budget can reach real sectors such as Small and Medium Enterprises (SMEs). This is based on the fact that the SME sector is the largest economic sector in Indonesia and contributes as an economic driver. Economic growth can be significantly increased through government programs that support financial inclusion and the real sector. The economic conditions in NTT, which until now still have a high dependence on the primary sector with low added value, especially local agriculture and livestock, which are mostly managed by small business units, create structural constraints on growth. Dependence on the primary sector without any added value causes economic growth in NTT to tend to be low.

Prior research exhibits significant contradictions regarding the impact of regional expenditures on economic growth, creating a clear gap that necessitates further empirical investigation. On one hand, scholars such as Wuryanto (2017) and Chandrarin et al. (2022) argue that capital expenditure is a vital driver for strengthening regional economic structures and improving development quality. Conversely, studies focusing on different administrative structures or regions, such as those by Kaat et al. (2015) and Mas'ud et al. (2021), suggest that indirect or transfer spending, rather than direct capital investment, significantly stimulates growth. Adding to this complexity, Latuheru (2024) found that indirect spending could actually have a negative effect, suggesting that the transmission mechanism of the Keynesian multiplier effect is not universal but is highly contingent upon regional context (Keynes, 1936). In the case of East Nusa Tenggara (NTT), the presence of a 'low-growth trap' and a high dependence on the primary sector likely causes fiscal injections to behave differently than in more developed provinces, thereby justifying the need for this study to analyze these variables under the specific framework of Minister of Home Affairs Regulation No. 77 of 2020.

Despite the breadth of previous studies, a significant research gap remains regarding the effectiveness of regional spending under the current regulatory landscape, particularly in underdeveloped regions. Most existing literature utilizes outdated expenditure classifications, leaving the implications of the structural shifts mandated by Minister of Home Affairs Regulation No. 77 of 2020 largely unexplored, and furthermore, the persistent 'low-growth trap' in East Nusa Tenggara Province, characterized by severe infrastructure deficits and high poverty rates, presents a unique context to test whether traditional Keynesian stimuli remain effective when fiscal injections are frequently diverted toward non-productive emergency needs (Keynes, 1936). This study directly addresses these deficiencies by synthesizing the latest fiscal framework with the specific socioeconomic challenges of the region.

2. Objectives

Guided by these identified gaps, the primary objective of this research is to empirically evaluate the impact of four redefined expenditure categories, operational, capital, unexpected, and transfer expenditures, on the economic growth of 22 districts and cities in East Nusa Tenggara Province. By focusing on the 2020-2024 period, this study aims to determine how these distinct fiscal instruments influence regional economic performance within a disaster-prone and structurally constrained environment. Ultimately, this research seeks to provide a clearer understanding of whether current budgetary allocations effectively trigger a multiplier effect or, conversely, serve as inhibitors to sustainable growth.

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3. Materials and Methods

This study used a quantitative research design to analyze the effect of regional spending on economic growth in East Nusa Tenggara Province for the 2020-2024 period. Secondary data were obtained from the official website of the Directorate General of Fiscal Balance and the Central Statistics Agency (BPS). The population in this study includes all regencies and cities in East Nusa Tenggara Province, namely 21 regencies and 1 city. Saturated sampling technique was used in this study, where the entire population was used as the research sample. Data were analyzed using multiple linear regression analysis to test the significance of the relationship between regional spending variables, namely operating expenditure, capital expenditure, unexpected expenditure, transfer expenditure, and economic growth. The research model is shown in Figure 1 below.

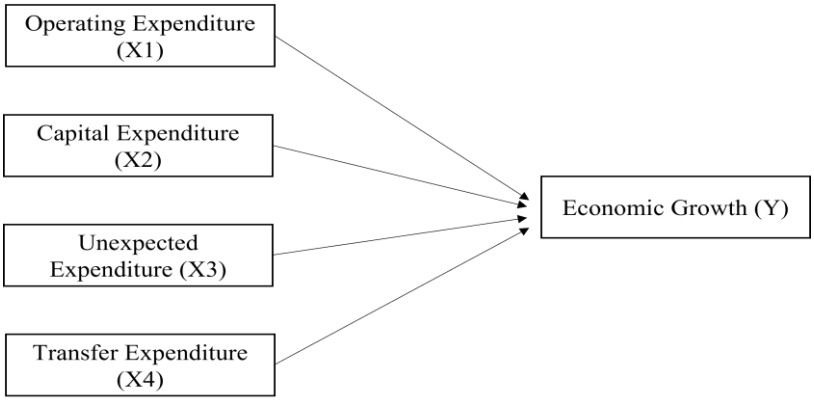

Figure 1 Research Model

The regression equation can be formulated as follows:

$Y = a + b_1X1 + b_2X2 + b_3X3 + b_4X4 + \varepsilon$

Explanation:

Y	: Economic Growth
X1	: Operating Expenditures
X2	: Capital Expenditures
X3	: Unexpected Expenditures
X4	: Transfer Expenditures
a	: Intercept
b_1-b_4	: Regression coefficient (slope)
ε	: Error term

To account for district-specific heterogeneity, this study employed a panel data regression. The Hausman test was conducted to select between Fixed Effects and Random Effects models. Expenditure variables were log-transformed to address scale differences and ensure homoscedasticity.

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistical Analysis

Chandrarin (2017: 139) explains that descriptive statistics are used to analyze and describe the characteristics of observed data. This analysis was conducted by presenting a table containing the research variables along with their average (mean), standard deviation, maximum, and minimum values, followed by an interpretation of the information presented in the table.

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Tabel 1 Descriptive Statistical Analysis Results

Variable	Minimum	Maximum	Mean	Std. Deviation
Operating Expenditures	264,650	1,091.54	622,663.62	166,259.74
Capital Expenditures	22,970	493,260	154,150.04	63,721.07
Unexpected Expenditures	30	63,340	7,517.66	10,457.34
Transfer Expenditures	1,848	376,170	173,890.49	78,428.44
Economic Growth	8.24	34.49	20.82	6.89

Based on Table 1, the results of the descriptive statistical analysis show that the lowest operational expenditure, at IDR 264.650 (in millions), was in Ngada Regency in 2024, and the highest operational expenditure was IDR 1,091.54 (in millions) in Sikka Regency in 2024. There is a significant disparity in the allocation of operational expenditures between the two regencies. The high operational expenditure in Sikka Regency is due to its larger scale, both in terms of area and population, compared to Ngada Regency, which has more limited administrative space.

The average operational expenditure value for all regencies/cities in NTT was IDR 622,663.62 (in millions), meaning that, in general, district/city governments in NTT allocated a budget of approximately IDR 622,664.62 (in millions) for their operational needs. The standard deviation was IDR 166,259.74 (in millions), which is smaller than the average, indicating that the distribution of operational expenditure data tended to be homogeneous across regions. This means that the variation in operational expenditure allocations between regions in NTT remained within reasonable limits.

The lowest capital expenditure was IDR 22.970 (in millions) in Ngada Regency in 2024, and the highest capital expenditure was IDR 493.260 (in millions) in West Manggarai Regency in 2022. The high capital expenditure allocation in West Manggarai Regency in that year can be attributed to its status as a super-premium tourist area requiring massive infrastructure support, compared to Ngada Regency, which had a different capital expenditure focus that year.

The average capital expenditure value across all regencies/cities in NTT was IDR 154,150.04 (in millions), meaning that, in general, district/city governments in NTT allocated a budget of approximately IDR 154,150.04 (in millions) for capital expenditure. The standard deviation was IDR 63,721.07 (in millions), which is smaller than the mean, indicating that the distribution of capital expenditure data tended to be homogeneous across regions. This means that the variation in capital expenditure allocations between regions in NTT remained within reasonable limits.

The lowest unexpected expenditure was IDR 30 (in millions) in Ende Regency in 2024, and the highest unexpected expenditure was IDR 63.340 (in millions) in Sikka Regency in 2020. The high unexpected expenditure in Sikka Regency in 2020 was likely due to emergency needs at the beginning of the COVID-19 pandemic, when the allocation of unexpected expenditures was optimized for COVID-19 management.

The average unexpected expenditure value across all regencies/cities in NTT was IDR 7,517.66 (in millions), indicating that, in general, district/city governments in NTT allocated approximately IDR 7.517,66 (in millions) for unforeseen expenditures. The standard deviation was IDR 10.457,34 (in millions), a value greater than the mean, indicating that the distribution of unforeseen expenditure data tended to be heterogeneous across regions.

The lowest transfer expenditure was IDR 1.848 (in millions) in Kupang City from 2021-2024, and the highest transfer expenditure was IDR 376.170 (in millions) in Timor Tengah Selatan Regency in 2021. The high transfer expenditure in Timor Tengah Selatan Regency compared to Kupang City could be due to its regional structure, where Kupang City has no villages, while Timor Tengah Selatan Regency has 266 villages that require larger village fund transfers.

The average transfer expenditure value across all regencies/cities in NTT was IDR 173,890.49 (in millions), meaning that, in general, district/city governments in NTT allocated a budget of around IDR 173,890.49 (in thousands) for transfer expenditure. The standard deviation of IDR 78,428.44 (in millions) was smaller than the average value. This indicates that the distribution of transfer expenditure data tended to be homogeneous across regions. This means that variations in transfer expenditure allocations in NTT were still within reasonable limits.

The lowest economic growth was -2.05% in Kupang City in 2020, which was due to the impact of the COVID-19 pandemic. The highest economic growth was 4.93% in West Manggarai Regency in 2024, which indicates a strong economic recovery in West Manggarai Regency driven by the tourism sector. This indicates fairly fluctuating economic conditions during the study period.

The average economic growth of all regencies/cities in NTT was 2.37%. The standard deviation was 1.57%, smaller than the average value, which indicates that the distribution of economic growth data tended to be homogeneous

4.1.2 Classical Assumption Test

Table 2 Classical Assumption Test Results

Classical Assumption Test	Indicator	Value	Criteria	Conclusion
Normality	Kolmogorov-Smirnov	0.083 > 0.05	Asymp. Sig. (2-tailed) > 0.05	Normal
Multicollinearity	VIF	VIF 1.01-1.24	VIF < 5	No Multicollinearity
	Tolerance	Tolerance 0.80-0.97	Tolerance > 0.1	No Multicollinearity
Autocorrelation	Durbin-Watson (DW)	1.870	$d_U < d < 4-d_U$	No Autocorrelation

4.1.2.1 Normality Test

The normality test is used to examine whether the residuals in a regression model follow a normal distribution. To assess whether the collected data are normally distributed, the Kolmogorov-Smirnov test was used. Based on Table 2, the normality test using the Kolmogorov-Smirnov test obtained an Asymp. Sig. (2-tailed) of 0.083 > 0.05; therefore, the data were normally distributed.

4.1.2.2 Multicollinearity Test

According to Chandrarin (2017: 140), the multicollinearity test functions to detect the presence of correlation among independent variables. In a regression model with more than one independent variable, there should be no relationship between them. Based on Table 2, the results of the multicollinearity test indicate that the tolerance value for each variable in this study was >0.1, with the VIF value for each independent variable in this study no greater than 5. Therefore, the model in this study did not indicate multicollinearity.

The tolerance values for each variable, respectively, are 0.80 (Operating Expenditures), 0.80 (Capital Expenditures), 0.96 (Unexpected Expenditures), and 0.96 (Transfer Expenditures). The VIF values for each variable, respectively, were 1.23 (Operating Expenditures), 1.24 (Capital Expenditures), 1.02 (Unexpected Expenditures), and 1.01 (Transfer Expenditures)

4.1.2.3 Autocorrelation Test

The autocorrelation test aims to detect correlation between the error terms in period t and the error terms in the previous period (t-1) in a linear regression model. Based on Table 2, the autocorrelation test results show a Durbin-Watson value of 1.870, indicating no autocorrelation. Therefore, the condition dU value < d < 4-dU is satisfied: 1.7651 < 1.870 < 4 - 1.7651.

4.1.2.4 Heteroscedasticity Test

The heteroscedasticity test is carried out to determine whether there are differences in residual variance between observations in the regression model.

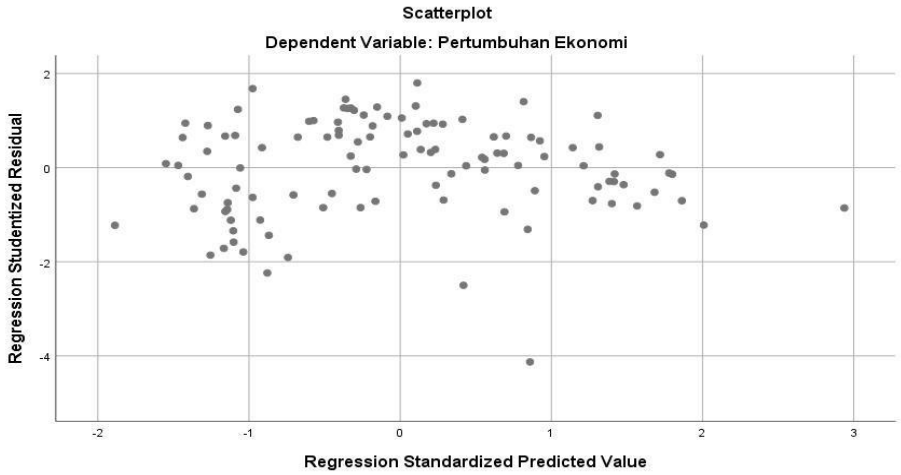

Figure 2 Heteroscedasticity Test Results

Based on Figure 2, the results of the heteroscedasticity test using a scatterplot show no clear pattern, as the points are randomly distributed above and below zero on the Y-axis without a clear pattern, which means that heteroscedasticity does not occur.

4.1.3 Model Feasibility Test (F Test)

According to Chandrarin (2017: 140), the F test is used to assess whether all independent variables have an influence on the dependent variable according to the regression model.

The results of the model feasibility test show that the F value is 11.862 and the significance value p = 0.000 < 0.05, meaning that the model in the regression equation is significant at the alpha level of 5% so it can be concluded that the model formulated in this study is appropriate.

4.1.4 Coefficient of Determination (R^2)

According to Chandrarin (2017: 140) the coefficient of determination (R2) shows how much variation in the dependent variable can be explained by the independent variable. The results of the coefficient of determination test show an Adjusted R Square coefficient value of 0.285, which means that 28.5% of the economic growth variable (Y) can be explained by the variables Operational Expenditure (X1), Capital Expenditure (X2), Unexpected Expenditure (X3) and Transfer Expenditure (X4), while the remaining 71.5% is explained by other variables outside the research model.

4.1.5 Hypothesis Testing (T-test)

According to Chandrarin (2017: 141), the t-test is used to assess the significance of the influence of independent variables on dependent variables in the regression model.

Table 3 T-test Results

Variable	Regression Coefficient	Std. Error	t	Sig.
Operational Expenditures	0.109	0.498	1.215	0.227
Capital Expenditures	0.012	0.349	0.134	0.894

Unexpected Expenditures	-0.546	0.081	-6.650	0.000*
Transfer Expenditures	-0.143	0.129	-1.736	0.086**

* Statistically significant at the 5% alpha level ($p < 0.05$)
** Statistically significant at the 10% alpha level ($p < 0.1$)

The statistical model of the multiple linear regression equation is as follows:

$$Y = 0.109X1 + 0.012X2 – 0.546X3 – 0.143X4$$

Based on Table 3, the results of the variable significance test (t-test) show that: The regression coefficient of operating expenditure is 0.109 with a t-value of 1.215 and a significance level of 0.277 > 0.05. This indicates that operating expenditure has no effect on economic growth. This means that the low growth trap and dependence on the primary sector in NTT cause the injection of funds through operating expenditure to be unable to create high added value in the community. The regression coefficient of capital expenditure is 0.012 with a t-value of 0.134 and a significance level of 0.894 > 0.05. This means that capital expenditure has no effect on economic growth. This suggests that the allocation of capital expenditure is not optimal or well-targeted, especially in the provision of supporting infrastructure for downstreaming.

The regression coefficient of unexpected expenditure is -0.546 with a t-value of -6.650 and a significance level of 0.000 < 0.05. This means that unexpected expenditure has a significant negative effect on economic growth. Specifically, for every 1% increase in expenditure, economic growth is estimated to experience a decline of 0.546%. This is because, during the research period, NTT faced the COVID-19 pandemic and Cyclone Seroja, which triggered a massive disbursement of emergency funds. The increase in unexpected spending resulted in the budget being diverted from funds that could have been used for productive sectors to disaster management activities that are largely consumable. As a result, high emergency spending is an indicator of factors that hinder the rate of regional economic growth.

The regression coefficient of transfer spending is -0.143 with a t-value of -1.736 and a significance level of 0.086 <0.1. This means that transfer spending has a significant negative effect on economic growth. Specifically, for every 1% increase in transfer spending, economic growth is estimated to experience a decline of 0.143%. This indicates that increasing the allocation of transfer spending to districts/cities or villages in NTT has not been able to stimulate economic growth.

4.2 Discussion

4.2.1 The Impact of Operating Expenditures on Economic Growth

The research results show that operating expenditures did not have a significant effect on economic growth in East Nusa Tenggara Province from 2020 to 2024. This finding indicates that increasing or decreasing operating expenditure allocations did not significantly impact fluctuations in economic growth in NTT during the study period. Operating expenditures had an average value of IDR 622,663.62 (in millions), making it the largest expenditure component compared to other types of expenditure. Based on Minister of Home Affairs Regulation No. 77 of 2020, operating expenditures include personnel expenditures, goods and services expenditures, interest expenditures, subsidies, grants, and social assistance. This high average indicates that the majority of the NTT Regional Budget (APBD) was absorbed by routine and consumptive bureaucratic needs. This explains why its impact on economic growth is low, with the allocation of funds being used more to finance government operations than productive public investment.

Keynes' theory states that regional spending should act as a stimulus that creates a multiplier effect to boost aggregate demand (Keynes, 1936). However, in NTT during the study period, this theory was not empirically confirmed. This is due to the low-growth trap and dependence on the primary sector, which result in cash injections through operating expenditures failing to create significant added value in society. According to Keynes, if government spending flows more outside the region to procure goods from outside NTT, the multiplier effect will shrink, thus failing to spur local economic growth. This research aligns with

research conducted by Wuryanto (2017), which found that operating expenditures have no effect on economic growth.

4.2.2 The Effect of Capital Expenditure on Economic Growth

The results of the study indicate that the regression coefficient of capital expenditure has no effect on economic growth in East Nusa Tenggara Province in 2020-2024. Capital expenditure has an average value of IDR 154,150.04 (in millions). Although this budget allocation is quite significant, the results of the study indicate that capital expenditure has no effect on economic growth in NTT during the study period. Referring to Minister of Home Affairs Regulation No. 77 of 2020, capital expenditure must produce fixed assets with a useful life of more than one year for public services. However, the research findings indicate that the fulfillment of administrative aspects and the physical availability of fixed assets have not been able to be automatically converted into drivers of real economic growth in NTT Province.

Keynes argued that government spending in the form of public investment should create a multiplier effect (Keynes, 1936). In this theory, capital expenditure functions as a capital injection to build regional production capacity. The ineffectiveness of this variable indicates a bottleneck in the economic chain, where spending on fixed assets has not been able to stimulate aggregate demand or create sufficiently strong economic activity in the community. The main factor contributing to the ineffectiveness of capital expenditure is suboptimal and inaccurate allocation, particularly in the provision of supporting infrastructure for downstream processing. Based on Keynesian theory, capital expenditure should support the productive sector to create added value. In NTT, facilities such as management centers, warehousing, and technology integration are inadequate. Without strong downstream infrastructure support, capital expenditure becomes merely static physical development, unable to drive the processing industry to increase regional income.

This research is inconsistent with research by Chandrarin, Sanusi, Roikhah, Yuniawan, and Cahyaningsih (2022), who found that achieving the Human Development Index (HDI) is one measure of development success, with indicators such as life expectancy, primary school participation rate, and community purchasing power dependent on government programs. The HDI indicator can be achieved with adequate capital expenditure.

4.2.3 The Impact of Unexpected Spending on Economic Growth

The study's findings indicate that unexpected spending had a significant and negative impact on economic growth in East Nusa Tenggara Province from 2020 to 2024. This finding can theoretically be explained through Keynes's theory of government spending (Keynes, 1936). Although Keynes emphasized the importance of government intervention to stimulate the economy, in NTT, the increase in the BTT reflected the economic shocks caused by the COVID-19 pandemic and Cyclone Seroja. This triggered the diversion of the budget, which should have been used for productive spending, to the BTT for emergency needs of a consumptive nature. As a result, the budget allocation failed to maximize the multiplier effect on the production of goods and services, but instead served only as a short-term safeguard.

Based on Minister of Home Affairs Regulation No. 77 of 2020, the BTT is indeed used for urgent, unpredictable needs. However, the findings of this study demonstrate that the large BTT in NTT during the study period actually reduced economic growth, as sectors driving the economy, such as agriculture and construction, were paralyzed by the disaster. Although the emergency fund (BTT) is intended for emergencies, its effective use depends heavily on sound budget planning. Input from relevant parties in disaster mitigation is essential to ensure that the BTT allocation is not used up for short-term consumption but also considers more measurable economic recovery measures. This aims to ensure that emergency fund expenditures remain accountable and have a targeted impact on regional economic stability. This research is inconsistent with research conducted by Kaat, Kindangan, and Rotinsulu (2015), which found that indirect spending had a positive and significant effect on economic growth

4.2.4 The Impact of Transfer Spending on Economic Growth

Research results show that transfer spending has a significant and negative impact on economic growth in East Nusa Tenggara Province for the 2020-2024 period. In Keynesian theory, government spending should stimulate the economy through a multiplier effect. However, in NTT, the magnitude of transfer funds actually shows an inverse relationship. This indicates that increased transfer funds are often absorbed primarily to finance routine expenditures and bureaucratic operations at the regional/village level rather than investment in the productive real sector.

Minister of Home Affairs Regulation No. 77 of 2020 stipulates that transfer spending is intended for profit sharing and financial assistance. The findings indicate its ineffectiveness in driving economic growth in NTT. The large flow of funds from the central government to the regions is not accompanied by the readiness of the local sector, resulting in incoming funds being absorbed for the procurement of goods and services originating from outside the NTT region. As a result, the allocation of transfer spending is unable to create added value to the GRDP, but only serves to support basic consumption and does not create a strong economic cycle within the region.

These findings emphasize the need for more thorough and participatory transfer budget planning. By involving various stakeholders in setting spending priorities at the regional and village levels, transfer funds can be directed to programs truly needed by the community to stimulate the productive sector, thereby minimizing inefficiencies that have negatively impacted economic growth. This research disagrees with Mas'ud, Wijaya, and Gani (2021), who found that indirect spending has a positive and significant effect on economic growth.

5. Conclusion

This study examines the effect of regional spending on economic growth. Regional spending is proxied by four types: Operational Expenditure, Capital Expenditure, Unexpected Expenditure, and Transfer Expenditure. This proxy classification refers to the latest Minister of Home Affairs Regulation No. 77 of 2020. The study was conducted at the provincial government level of East Nusa Tenggara Province.

Based on the analysis, it can be concluded that regional spending, measured by unexpected spending and transfer spending, has a significant and negative effect on growth. Meanwhile, operational spending and capital spending have no effect on economic growth. The increase in unexpected spending triggered by the emergency situation actually reduced economic growth. This is because the budget that should be used for the productive sector is diverted to emergency needs that are largely consumptive. Transfer expenditure flows in the form of shared funds and financial assistance have not been optimally managed to spur economic growth, and transfers tend to be absorbed for the procurement of goods and services from outside the NTT region, resulting in suboptimal money circulation at the local level, which then hampers economic growth.

This study has low external validity because it was only conducted in East Nusa Tenggara Province, while in Indonesia there are 38 provinces. To increase external validity, in other words, generalizability at the national level of Indonesia, further research is needed in other provinces with results consistent with this study. Future researchers can conduct research on the same topic in other provinces in Indonesia.

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