

Analysis of the Influence of Regional Original Income (PAD), Regional Expenditures on Economics Growth of District/City in North Sumatera Province

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ABSTRACT

This study aims to analyze the effect of regional original income (PAD), employee expenditures, goods and services expenditures, and capital expenditures districts/cities in North Sumatera Province. This study uses secondary data from 2000 to 2019 in 19 districts/cities in North Sumatera Utara Province. The data analysis model uses the ARDL (Autoregressive Distributed Lag) Panel's model. Based on the result of the stationary test (root test) shows that the variables of regional original income (PAD), employee expenditure, goods and services expenditures, and capital expenditures stationary at level 1 (first different) and based on the result of the maximum lag test, the regional original income (PAD), employee expenditure, goods and services expenditures and capital expenditures variable are maximum at lag 2. The result of the ARDL panel research show that the Regional Original Income (PAD) variable has a negative and significant effect on economic growth in the long term, and a positive and significant effect on economic growth in the long term, and a positive and significant effect on economic growth in the short term. Employee expenditure variable has a positive and significant effect on economic growth in the long term, and has a negative and significant effect on economic growth in the short term. Shopping for goods and services has a positive and significant effect on economic growth in the long term, and has a negative an insignificant effect on economic growth in the

short term. And the capital expenditure variable has a positive and significant effect on economic growth in the long term, and has a positive and significant effect on economic growth in the short term.

Keywords: *Economics Growth, Original Regional Income (PAD), Employee Expenditure, Goods and Services Expenditures, and Capital Expenditure.*

INTRODUCTION

One important indicator to know the results of economic development in a region is economic growth, economic development should be viewed as a process in which interrelationships and mutual influence between the factors that cause economic development. This indicator provides information about the extent to which economic activity during a certain period including economic problems at the regional level, both provinces, districts and cities that turned out to have diverse problems as a result of the conditions and potential of the regions that vary greatly, and the type of economic activity that is dominant in each region.

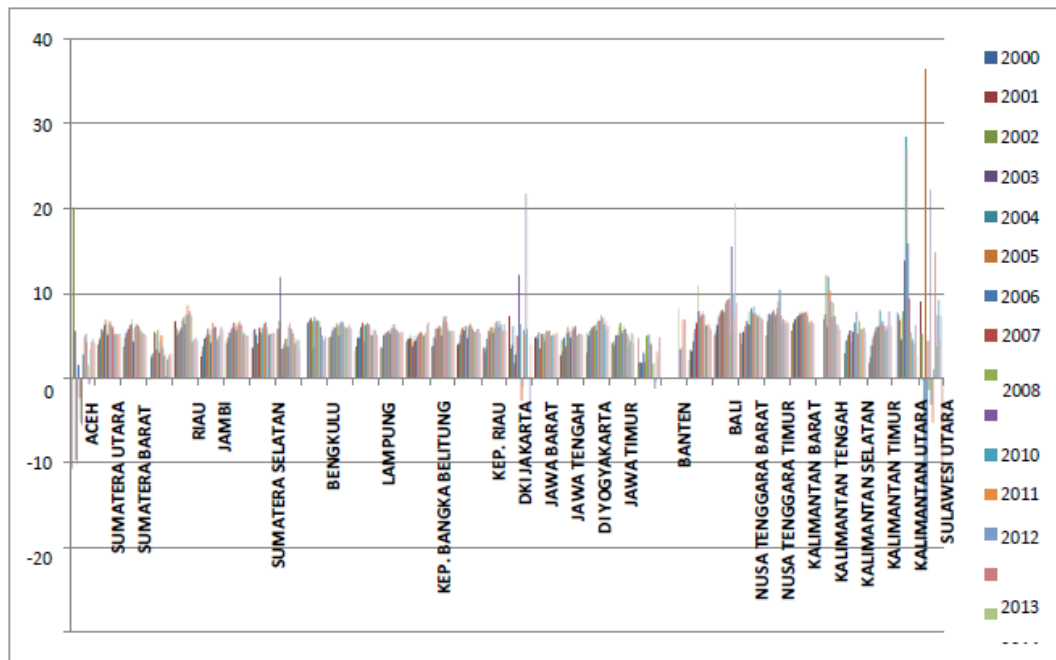
In addition, economic growth is one of the main determining elements in the regional development process and has broad policy implications, in regional economic growth, it is explained why an area can

grow fast and some grow slowly (Sjafrizal, 2018)

According to Sukirno (2006) economic growth can be measured, among others, by a magnitude called Gross Domestic Product (GDP) at the national level and Gross Regional Domestic Product (GDP) at the regional level economic growth is a change in economic levels that take place from year to year.

Measurement of economic growth in each region is done by comparing the percentage of Gross Regional Domestic Product (GRDP), GRDP is an added value for each output generated from all economic activities in one period (Pangestu, 2018).

The following are Indonesia's GDP data taken from the economic growth data of each province in Indonesia from 2000 to 2019.



Source: Statistics Indonesia, 2020
Figure 1 GDP development of each province in Indonesia in 2000-2019 (percent)

Based on Figure 1 Above, it can be seen that the economic growth of each province as seen from economic growth data fluctuates from year to year. According to Sjafrizal (2018: 251) this is because in the regional economic analysis there are elements of differences in regional economic potential, location advantage, mobility of goods and production factors between regions.

The level of regional economic growth in a certain period both overall and sectoral can be seen from the large percentage of Gross Regional Domestic Product growth (GRDP) on the basis of constant prices. This means that to see the economic growth of a region, it must

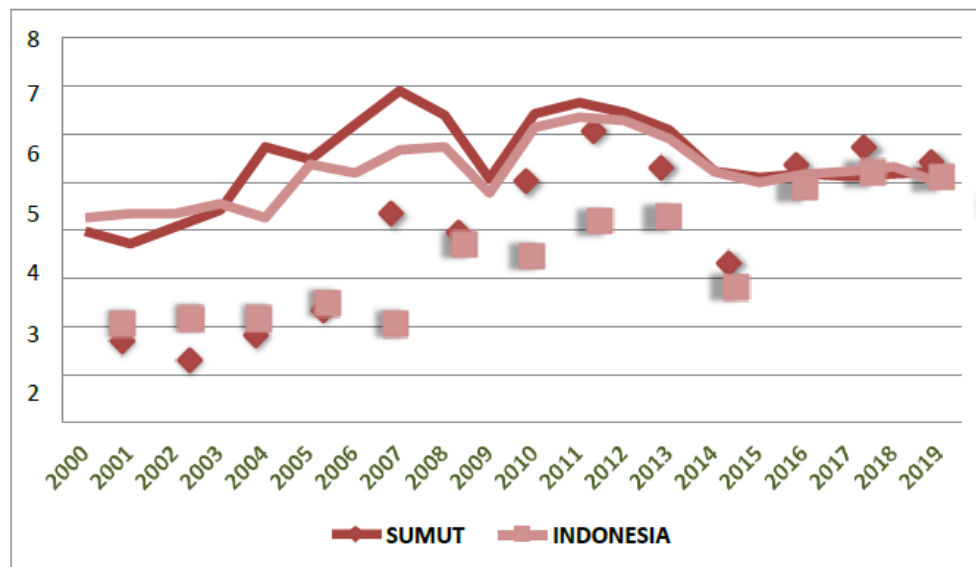
compare the real income of the region in question from year to year.

From Figure 1 above using data for the period of 2000- 2019 variations in the rate of economic growth between provinces that have a high rate of economic growth, among others, experienced by the province of West Nusa Tenggara and Papua province in 2015 very high economic growth reached 21.76%, then in 2016 occupied by Central Sulawesi province of 9.94%, in 2017 North Maluku province with economic growth of 7.07%, then in 2018 Central Sulawesi province economic growth of 20.56%, and in 2019, where most of these provinces are new provinces of expansion. While the provinces that have relatively low growth are the provinces of East Kalimantan and

North Kalimantan which have very low economic growth.

However, the provinces of Aceh, Papua, and West Papua have experienced very low economic growth to reach minus numbers, this is because Aceh province experienced the Tsunami in 2004 and in 2009 had very low economic growth.

From these data can be seen that North Sumatera province has an average economic growth of 5% each year, it can be said that North Sumatera still contributes to national economic growth, it can be seen from the comparison chart of economic growth of North Sumatera province with the overall economic growth of Indonesia.



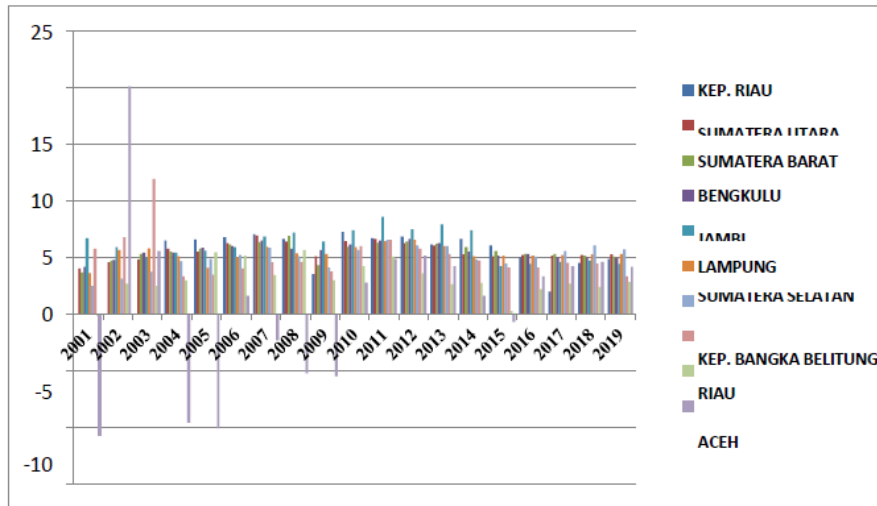
Source: BPS Indonesia, 2020 (data processed)

Figure 2. Comparison chart of economic growth rate of Indonesia and North Sumatera province

Based On Figure 2. shows that the economic growth rate of Indonesia and North Sumatera province has a fluctuating trend , the economic growth rate of Indonesia and North Sumatera province ranges from 4 to 5 percent each year, judging from the data that the economic growth of North Sumatera province is higher than that of Indonesia. It can be seen from the economic growth of North Sumatera which increased from 2004 to 2008, where economic growth in 2007 had the highest economic growth of 6.9%, while Indonesia only reached 5.67%. Then in 2009 both experienced a decline in which the economic growth of North Sumatera fell to 5.07% and economic growth of Indonesia 4.77%, then the economic growth of Indonesia and North Sumatera again increased in 2010, and on average experienced stable economic growth until 2015 that is economic growth ranged above 5%.

Indonesia's economic growth in 2019 is due to the weak growth of the processing industry sector, and the declining sectors, namely the trade, agriculture, and construction sectors (Tempo.co, February 2019). This shows that the economic system of each province should be improved with good quality and can develop the potential of its territory so that the economic growth of each province can increase and can contribute to increasing national economic growth.

As one of the provinces that have strategic potential as a national trade traffic, North Sumatera province has a high economic growth rate seen from the rate of economic growth every year, when viewed from the economic growth of the provinces on the island of Sumatra, North Sumatera has a fairly high economic growth. It can be seen from the table and graph of the economic growth rate of Sumatra island below.



Source: BPS Indonesia (data processed)

Figure 3. Graph Of The Economic Growth Rate Of Sumatra Island

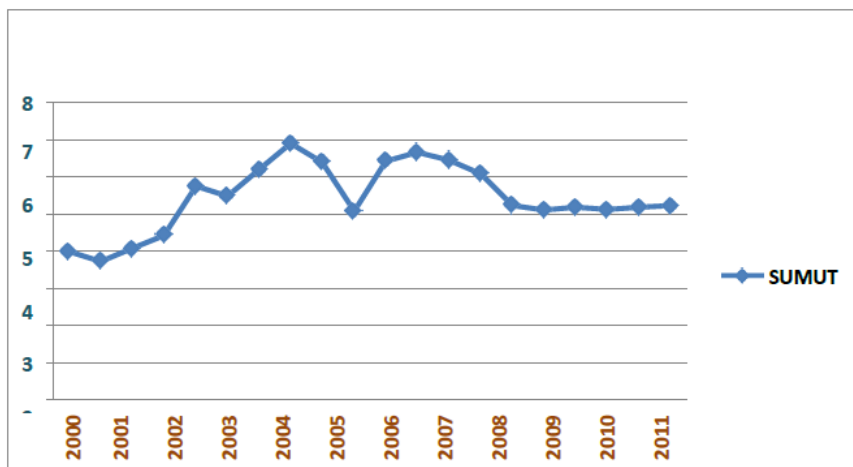
Based on Figure 3 above seen from 10 provinces on the island of Sumatra, North Sumatra province including the 2nd province in 2001 which has a high economic growth rate after the Riau Islands province and in 2004-2007 occupies the 2nd position, in 2010 until 2019 North Sumatra province occupies the 3rd position of the 10 provinces on the island of Sumatra. In 2018 and 2019, North Sumatra province was ranked 3rd out of 10 provinces on the island of Sumatra, and those experiencing low economic growth from 2015-2019 were Aceh province and Riau province with economic growth rates below 3%.

Comparison of the economic growth rate of North Sumatra province and the

provinces on the island of Sumatra provides evidence that North Sumatra is able to contribute to improving the national economy.

The increase in economic growth generally comes from the amount and quality of natural resource potential and human resource potential owned by the region, besides the availability of regional infrastructure also affects it.

In this case, the potential is obtained from the economic growth of each region in it, both regencies and cities. The following economic growth data of North Sumatra province is seen from economic growth data on the basis of constant prices (percent).



Source: BPS North Sumatra, 2020 (data processed)

Figure 4. North Sumatra Economic Growth Chart In 2000 2019 (Percent)

Based on Figure 4 above can be seen the economic growth rate of North Sumatera during the period 2000 - 2019 has increased from year to year, where the highest economic growth was in 2007 with a growth rate of 6.9%, and in 2008-2019 the economic growth of North Sumatera province reached above 5% although its growth has fluctuated from year to year. But in fact, when viewed from the magnitude of

economic growth of North Sumatera province nationally from 2015 to 2019 still can not be said to occupy a high position because it is still in the position of the top 20 of 34 provinces in Indonesia, it is still said that the amount of economic growth is still far compared to the provinces in Java and provinces in Sulawesi, can be seen from the table of economic growth of each province in Indonesia below.

Table 1 data on the economic growth rate of each province in Indonesia on the basis of 2010 Constant Prices by province (Percent)

NO	PROVINCE	2015	2016	2017	2018	2019
1	NUSA TENGGARA BARAT	21.76	5.81	0.09	-4.5	3.9
2	SULAWESI TENGAH	15.5	9.94	7.1	20.56	8.83
3	PAPUA	7.35	9.14	4.64	7.32	-15.75
4	SULAWESI BARAT	7.31	6.01	6.39	6.26	5.67
5	SULAWESI SELATAN	7.19	7.42	7.21	7.04	6.91
6	KALIMANTAN TENGAH	7.01	6.35	6.73	5.61	6.12
7	SULAWESI TENGGARA	6.88	6.51	6.76	6.4	6.5
8	GORONTALO	6.22	6.52	6.73	6.49	6.4
9	SULAWESI UTARA	6.12	6.16	6.31	6	5.65
10	MALUKU UTARA	6.1	5.77	7.67	7.86	6.1
11	BALI	6.03	6.33	5.56	6.31	5.6
12	KEP. RIAU	6.02	4.98	1.98	4.47	4.84
13	DKI JAKARTA	5.91	5.87	6.2	6.11	5.82
14	SUMATERA BARAT	5.53	5.27	5.3	5.14	5.01
15	MALUKU	5.48	5.73	5.82	5.91	5.41
16	JAWA TENGAH	5.47	5.25	5.26	5.3	5.4
17	BANTEN	5.45	5.28	5.75	5.77	5.29
18	JAWA TIMUR	5.44	5.57	5.46	5.47	5.52
19	BENGKULU	5.13	5.28	4.98	4.97	4.94
20	LAMPUNG	5.13	5.14	5.16	5.23	5.26
21	SUMATERA UTARA	5.1	5.18	5.12	5.18	5.22
22	JAWA BARAT	5.05	5.66	5.33	5.65	5.07
23	DI YOGYAKARTA	4.95	5.05	5.26	6.2	6.59
24	NUSA TENGGARA TIMUR	4.92	5.12	5.11	5.11	5.24
25	KALIMANTAN BARAT	4.88	5.2	5.17	5.07	5.09
26	SUMATERA SELATAN	4.42	5.04	5.51	6.01	5.69
27	JAMBI	4.21	4.37	4.6	4.69	4.37
28	PAPUA BARAT	4.15	4.52	4.02	6.25	2.66
29	KEP. BANGKA BELITUNG	4.08	4.1	4.47	4.45	3.32
30	KALIMANTAN SELATAN	3.82	4.4	5.28	5.08	4.08
31	KALIMANTAN UTARA	3.4	3.55	6.8	5.36	6.9
32	RIAU	0.22	2.18	2.66	2.35	2.81
33	ACEH	-0.73	3.29	4.18	4.61	4.14
34	KALIMANTAN TIMUR	-1.2	-0.38	3.13	2.64	4.74

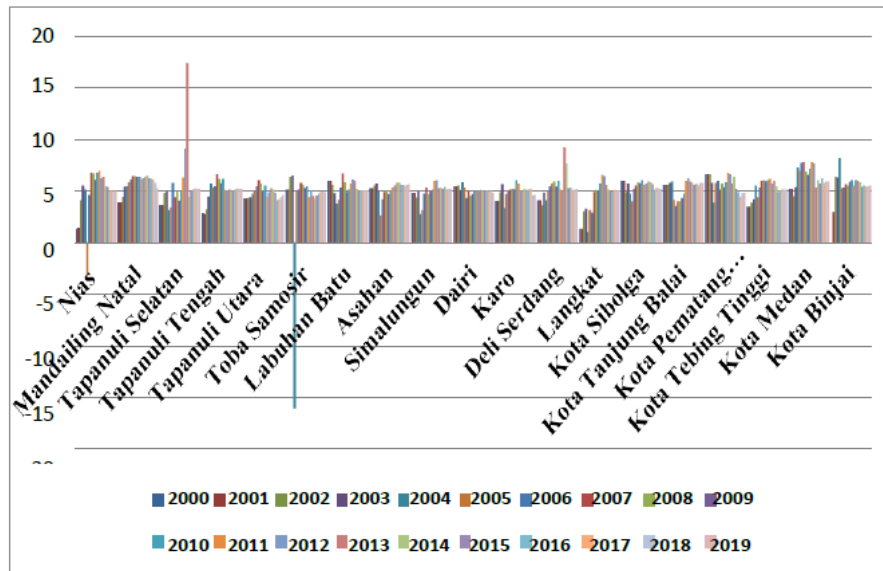
Source: Statistics Indonesia, 2020

In addition, the rate of economic growth in North Sumatera is not offset by economic growth in the District / City in it, there are several districts/cities whose economic growth decreases from year to year and there is also an increase in this also affects the economic growth of North Sumatera in general, it can be seen from the development of economic growth rate on the basis of the constant price of the District/City below.

Based on Figure 5 the rate of economic growth can be seen that there is a decrease in the rate of economic growth in Nias and Toba Samosir regency where economic growth reached minus figures in 2004 and 2005 and there are many regions also experiencing economic growth that fluctuates from year to year, there are 3 regions that have decreased from year to year, namely Mandailing Natal Regency whose economic growth rate in 2015 has an economic growth of 6.21% decreased 0.3%

in 2016 to 6.18%, then it decreased again in 2017 to 6.09% and decreased 0.79% in 2019 to 5.30%. Kabupaten Tapanuli Tengah its GRDP rate in 2017 amounted to 5.24%

decreased by 0.06% in 2019 to 5.18 and Kota Sibolga its GRDP rate in 2017 by 5.27% decreased by 0.07% in 2019 to 5.20% in 2019.



Source: BPS North Sumatera (data processed)

Figure 5. Graph of economic growth rate on the basis of constant prices 2010 by District / City in North Sumatera province in 2000 - 2019.

The region that has the highest economic growth is the city of Medan which has increased economic growth on average every year this is because the city of Medan is the capital of North Sumatera province and as the center of the economy and government in North Sumatera, making the city of Medan as a base area for increasing economic growth of North Sumatera province. Where in 2015 the economic growth of Medan City reached 5.74% increased by 0.53% in 2016 but decreased in 2017 by 0.46% to 5.81% but in 2018 it increased by 0.11% to 5.92% and in 2019 rose back to 5.93%.

To achieve economic growth, each region needs funds that are not only sourced from the state budget, but also sourced from the revenue of the region itself, the ability of the region to provide funding that comes from the region in the form of local revenue (PAD) which is highly dependent on the ability to realize the existing economic potential that is able to create funds for regional development that is able to increase regional economic growth.

In the era of regional autonomy, each region is given greater regional financial authority and allocation so as to increase economic growth to encourage the improvement of the prosperity of the local community (Sjafrizal, 2018: 97)

Act Number.32 of 2004 on local government and Law Number.33 year 2004 on financial balance between the central government and local government requires local government to implement decentralization and spur economic growth in order to improve the welfare of the community where the purpose of regional autonomy is to improve public services and promote the regional economy.

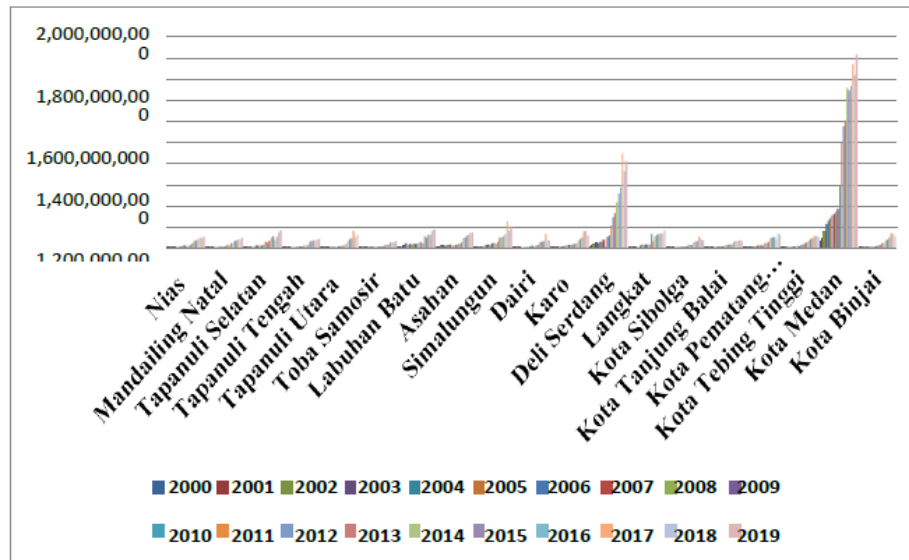
In addition, Todaro (2000) states that the public sector (government) must be recognized and trusted to assume a greater and more decisive role in the management of the regional national economy, local governments as policy makers in the region will then prefer to adopt development policies that are tailored to the characteristics of the potential of the region itself.

The high and low level of local revenue (PAD) in a region indicates the level of independence of a region to not rely too much on funds from the central government and can finance its own area.

Local revenue (PAD) is the main source of revenue for a region, the PAD obtained by a region comes from local taxes, regional levies, the results of regional wealth management, etc. (Jaya et al ,2014).

PAD being the backbone used to finance regional spending, this study conducted by Liliana et al (2011) obtained the results that the growth of government revenue is very strong correlation with government spending.

Below is presented the data of local revenue (PAD) Regency/City in North Sumatra province for the period 2000-2019 (000 Rupiah).



Source: BPS North Sumatra, 2020 (data processed)

Figure 6. Graph of regional original income (PAD) by Regency/City in North Sumatra province in 2000 - 2019.

Based on Figure 6 above, it can be seen that each region has different financial capabilities for each district/city and it can be seen that the ability of local governments is still low on the realization of regional income that fluctuates from year to year. Where from year to year the realization of the revenue of the district / city the largest is the city of Medan the increase in its original income on average increases every year where the city of Medan the largest source of income is obtained from local taxes and levies, then Deli serdang, Simalungun and North Tapanuli Regency also have a pad quite high where Siamalungun and North Tapanuli Regency rely on revenue in the local tax sector and the results of regional wealth management in the form of agriculture, processing, tourism.

While regions that have low local income are Nias Regency, Dairi Regency

and Sibolga City, Toba Samosir which experience fluctuating local income where the region relies heavily on the tourism sector in increasing regional income.

But this is contrary to research Gustiana (2014) where it is said that the original income in each region is different, regions that have the ability in the field of industry or have abundant natural resources assess the original income of the region is much greater than other regions, and vice versa, where the three districts have large natural resources in the field of Tourism and agriculture.

From these data it can be said that not all local governments are able to convert a high increase in local revenue to increase GDP so that economic growth is not in accordance with the forecast target, but in practice itself many regions are still relying

on funds from the central government to finance the regional budget (APBD).

In this APBD itself there are several government expenditure components that have been proposed by the regional working unit (SKPD) and Related Agencies in the region, but broadly speaking there are two government expenditures, namely direct expenditure and indirect expenditure. Direct spending consists of employee spending, goods and services spending, capital expenditure, which is meant by direct spending itself is a component of spending that must be done by the local government every year, because the expenditure is a form of development spending for the economy.

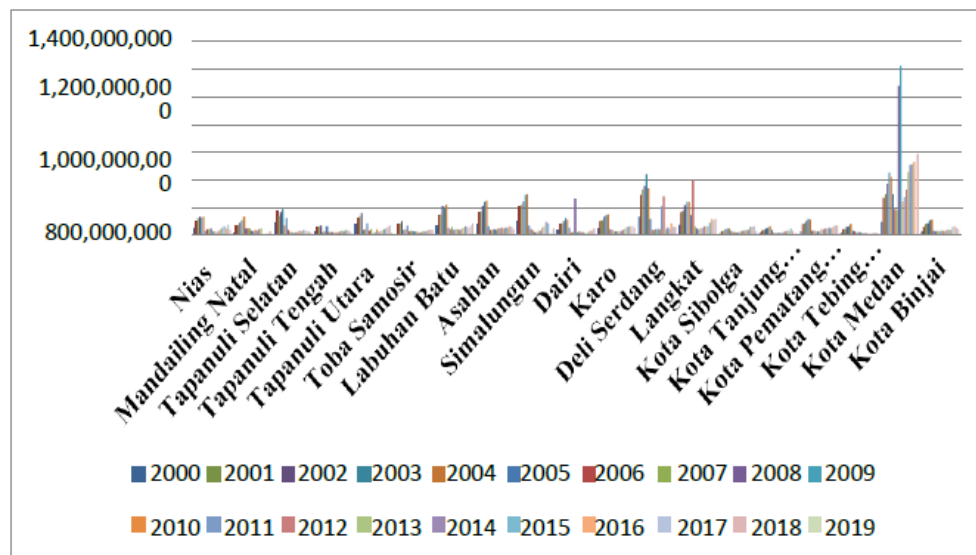
According to Sjafrizal (2018: 97), local governments in determining the direction of policies and programs and activities that can be carried out to encourage economic growth in their respective regions, variations in regional economic growth and regional development patterns will certainly be able to directly affect the performance of economic growth and development.

The role of the government in an effort to improve economic growth and community welfare is one of the allocative roles, where the local government and related authorities in formulating regional development policies or preparing regional development plans in question (Sjafrizal, 2018).

The policy is carried out effectively through proper allocation based on economic classification in the composition of employee expenditure, goods and services expenditure and capital expenditure (Deswantoro,2017).

According to Pangestu (2018) government spending in terms of employee spending, goods and services spending and capital expenditure will reflect local government policies that will be carried out, the amount of these spending budgets is a cost that must be incurred by local authorities, theoretically local government spending can affect economic growth.

Below are presented data on the expenditure of Local Government Employees of the Regency/City of Sumatra province for the period 2000-2019.



Source: BPS North Sumatera, 2020
 Figure 7. North Sumatera Regency/City Government Employee Spending Chart Period 2000 – 2019 (000 Rupiah)

Based on Figure 7 above can be seen the proportion of local government employee spending District/City in North Sumatera province, and it can be seen that

not all local governments can streamline employee spending to spur the economy of the region, this is seen from the data on employee spending District/City in North

Sumatra from 2000 – 2019 fluctuated from year to year. Medan city has a relatively high employee spending compared to other regions, followed by Tebing Tinggi City, Karo Regency and Deli Serdang regency. Areas that have low employee spending are Tanjung Balai City, Central Tapanuli, and Binjai City.

However, this is not in accordance with the opinion of Burhanuddin (2012) stated that the financial capacity of the region which will improve the performance of regional employees that will increase spending and consumption of the community that has a positive impact on regional economic growth.

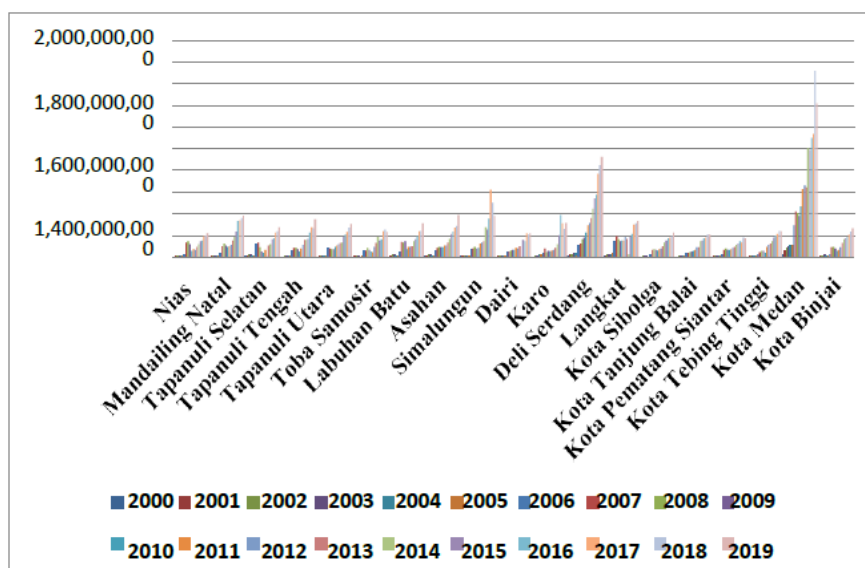
High employee spending can improve the welfare and performance of employees, which can increase the purchasing power of goods and services so as to improve economic activity but with

these data there are still areas that have low regional spending.

According to Fitri (2019) stated that the allocation of employee spending will promote economic growth in terms of consumption which is the main condition for long-term growth to increase the amount of production of goods and services.

Shopping for goods and services is used for the purchase / procurement of goods that are valued for less than a year and or the use of services in implementing local government programs and activities that will support regional economic growth in carrying out the activities of the government of a region (Pangestu,2018).

Below are presented data on shopping for goods and services of districts/cities in North Sumatera province for the period 2000-2019.



Source: BPS North Sumatera, 2020

Figure 8. Shopping chart shopping for goods and services of the Regency/City of North Sumatera for the period 2000 – 2019 (000 Rupiah)

Based on Figure 8. above can be seen that shopping for goods and services in each district/city fluctuated in the period 2000 - 2019, Medan city experienced the highest increase in employee spending in 2018, followed by Deli Serdang regency, Simalungun Regency, Asahan Regency, Mandailing Natal regency, Central Tapanuli Regency and Binjai City, while areas that

have low employee spending are Nias Regency. This decrease is due to the APBD (regional budget) of each region which varies depending on how each region allocates its regional budget. Judging from the data, the local government has not been fully able to allocate well shopping for goods and services.

Judging from these data, it contradicts the opinion of Pangestu (2018) which states that when shopping for goods and services is met properly, it will be able to maximize public services.

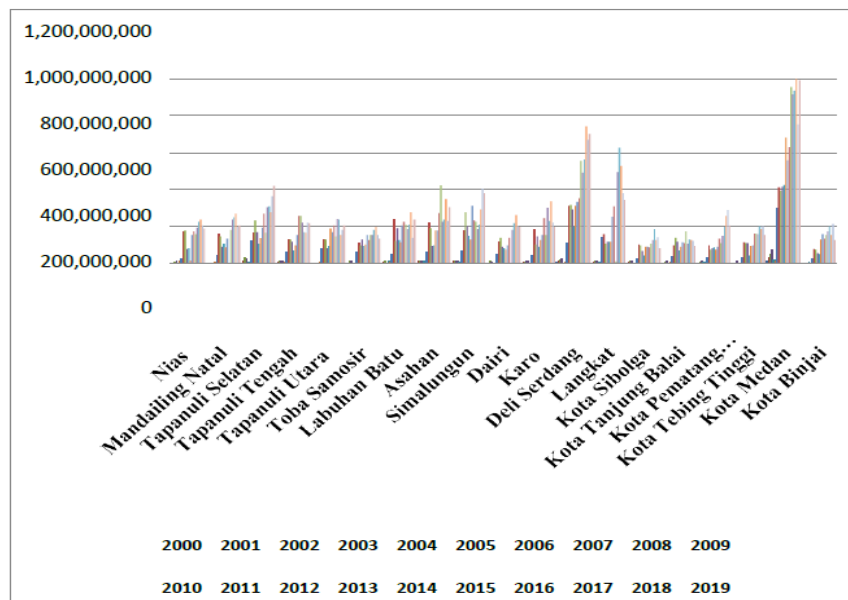
The higher the expenditure of goods and services will be able to increase regional economic growth, it is because the expenditure of goods and services is used for government operating costs, such as ATK costs, official mail delivery, etc. that affect economic growth.

Badruddin (2012) mentioned that government spending on goods and services will cause demand for goods and services that will be responded by producers to produce goods and services in accordance

with consumer needs that will lead to economic growth of the region.

According to Halim (2008), capital expenditure is a form of investment which is Capital Expenditure as an expenditure or expenditure that benefits more than one year and is used in government activities that are economically, socially, and other benefits so as to improve the ability of the government to serve the community, capital expenditure is used to build infrastructure in the area, with good infrastructure will increase the competitiveness of the region that can increase economic activity and investment in the area.

Below is the data on capital expenditure of districts / cities in North Sumatra province for the period 2000-2019.



Source: BPS North Sumatra, 2020
 Figure 9. Capital Expenditure Graph Of North Sumatra Regency/City Government Period 2000 – 2019 (000 Rupiah).

Based on Figure 9 above can be seen that the amount of capital expenditure of each district / city has increased and decreased each year where Sibolga city has the lowest capital expenditure, then followed by Tanjung Balai City, and areas that have high capital expenditure are Medan City, Deli Serdang regency, Langkat regency, South Tapanuli Regency, Asahan Regency, Simalungun regency, of course this is different – each region and able to have a positive effect on efforts to raise the

level of welfare and economic growth, but judging from these data there are still many regions that have low capital expenditure.

Capital expenditure should have a long-term impact to support economic growth. According to Darise (2008) local government capital expenditure is used for the addition of fixed assets that provide benefits in the long term including some expenditure for the maintenance of assets whose use is to extend or increase the

service life and improve the quality of assets.

Research Kuncoro (2002) found that the allocation of government capital expenditure in building public facilities and infrastructure and has a positive impact on economic growth.

Based on the above description of the local original income (PAD) that supports regional economic growth, and regional spending has an influence terhadap Economic Growth Value of districts/cities in North Sumatra province, then if further associated with economic growth figures that become a measure of economic development performance in the framework of its growth. The amount of economic growth in districts / cities in North Sumatra on average increases each year will lead to local revenue (PAD), regional spending, especially employee spending, goods and services spending, capital expenditure as a component to experience an increase in economic growth and the study in this study is not only related to the influence of these variables on economic growth, but also analyze the causality between economic growth simultaneously. Therefore, it is very necessary an in-depth analysis of the condition in the District/City in North Sumatra province.

LITERATURE REVIEW

Economic Growth

Economic growth is a process of changing the country's economy in a certain period of time towards better economic conditions. Economic growth can be used to quantitatively measure the development of economic activity by comparing a given year with the previous year.

Local Revenue (PAD)

In addition to this, the total amount of income per year is determined by the amount of income per year (UU. No 32 of 2004 on local government), regional revenues derived from the receipt of the central and regional balance funds, as well as from the region itself, namely local

original income and other legitimate income.

Government Spending Theory

Government Expenditure (government Expenditure) is part of fiscal policy, which is a government action to regulate the course of the economy by determining the amount of government revenue and expenditure each year as reflected in the APBN for national and APBD for regional/regional. The purpose of this fiscal policy is in order to stabilize prices, output levels and employment opportunities and spur economic growth. (Sadono, 23; 2017).

Shopping Area

Regional spending (accrual basis) is a government obligation that is recognized as a deduction from the value of net worth. Halim (2007: 322) suggests that regional spending is the government's obligation to reduce the value of wealth. clean. This is also confirmed by Yuwono (2005: 108) which states that regional spending is a means of regional cash expenditures or liabilities recognized as a reduction in net worth within a period of one fiscal year that will not be obtained by the government. In short, regional spending is used for the implementation of government affairs that become the authority of the autonomous region.

Employee Shopping

Employee spending is one type of government expenditure contained in the state budget. Every year this type of expenditure is always present in the state budget, in the state budget employee spending is included in the category of central government spending and the type of state spending. According to bps, employee spending is spending on honorarium / wages, overtime and other expenses to increase motivation and quality of employees in implementing local government programs and activities.

Shopping For Goods And Services

Expenditure on goods and services is expenditure on the procurement of goods in the government environment whose utility value is less than one year in the accounting period and/or the use of services in carrying out the activities of the government of a region. When shopping for goods and services is met properly, government employees will be able to maximize public services (Pangestu, 2018).

Capital Expenditure

Capital expenditure is the expenditure made to build fixed assets, the purpose of building fixed assets in the form of facilities, infrastructure and infrastructure is to provide adequate public services so as to increase economic productivity, if an area has adequate infrastructure can make investors to invest and the community can carry out their daily activities comfortably so that the level of productivity will increase (Jaya and Dwirandra, 2014: 80-81).

- Capital expenditure has a positive effect on the economic growth of districts / cities in North Sumatera.

MATERIAL AND METHOD

This study is a study of economics to analyze the effect of local revenue (PAD), employee expenditure, goods and services expenditure, capital expenditure on economic growth in districts/cities in North Sumatera province by taking a sample of 13 districts and 6 cities of North Sumatera province. This study uses panel data, which is a combination of time series and cross section data for 20 years, starting from 2000 to 2019 using annual data. This study uses quantitative approach and econometric analysis of panel data.

The type of data in this study is secondary data, namely data documentation related to the subject that the researcher quotes from books, websites, and historical records or reports that have been compiled in archives derived from the BPS of North Sumatera province on economic growth, and regional spending published in the news of financial statistics of the North Sumatera province and several publications <https://sumut.bps.go.id>. To increase the accuracy of data and reading materials related to research, journals, Scientific Papers that have data sets.

In this study the analysis model used is panel data regression using Eviews program software as a tool in processing data. The data was analyzed using the Eviews 10 Program Data panel model. Eviews is a program presented for statistical analysis and econometrics. Eviews Presents Data Analysis, Regression and forecasting tools. Autoregressive distributed Lag (ARDL); Autoregressive Distributed Lag (ARDL) is a regression method that inserts the lag of both dependent and independent variables simultaneously. Autoregressive Distributed Lag (ARDL) introduced by Pesaran et al. (2001). In this study using panel data that is by using time series and cross section data that is between regions. ARDL panel regression is used to obtain the

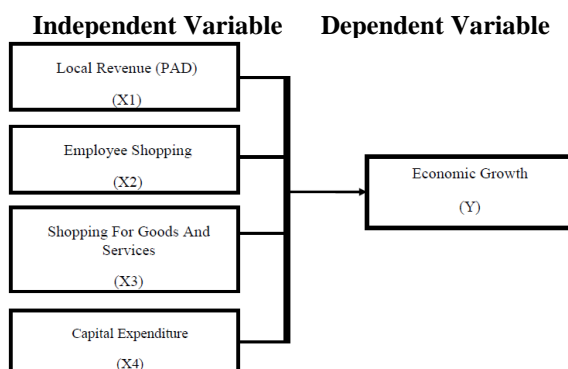


Figure 10. Conceptual Framework

Hypothesis

Based on the background of research and the relationship between variables, the research hypothesis:

- Local revenue (PAD) has a positive effect on the economic growth of districts/cities in North Sumatera.
- Employee spending has a positive effect on the economic growth of districts / cities in North Sumatera.
- Shopping for goods and Services has a positive effect on the economic growth of districts / cities in North Sumatera.

estimation results of each individual characteristic separately by assuming the existence of long-term lag cointegration of each variable.

RESULTS AND DISCUSSION

The Effect Of The Previous Year's Economic Growth On The Current Year's Economic Growth.

Based on the results of the analysis obtained that in the short term the economic growth of the previous year has a positive and insignificant effect on the economic growth of districts / cities in North Sumatera province in the current year. It can be seen from the value of positive value coefficient of 0.106382 and not significantly affect economic growth in the current year which can be seen from the value of probability significance of $0.4260 > 0.05$. Economic growth is one of the important benchmarks in determining the success of economic development, where economic growth describes a real impact of development policies implemented. Economic growth is closely related to the process of increasing the production of goods and services in the economic activity of society.

Economic growth of North Sumatera province from year to year fluctuates, where for the same period in 2000 – 2019 the average economic growth of North Sumatera province was 5 percent annually, and in 2000 the base year had economic growth of 3.98 percent, then experienced fluctuations every year where economic growth in 2006 to 2008 became the highest, reaching 6 percent, this is in accordance with the opinion of Boediono (2013) who stated that the economy experienced growth when the real income of the community in a particular year was greater than the real income of the community in the previous year.

Based on the results of the estimation of the influence of economic growth is still low in improving the welfare of the community this is due to the fact that based on the RKPD of North Sumatera in 2020, the economic level of North Sumatera is still low due to: low per capita income,

high poverty rates, income inequality is still high, economic, and the economic growth condition of North Sumatera in 2018 decreased from the expected target of 5.4 percent but the realization was only 5.18 percent, this is due to the impact of the global economy, falling commodity prices, and economic slowdown in North Sumatera province, this is contrary to Astutiningsih research, et al (2017) which states that economic growth is used to assess, economic growth rate shows real income in a given year compared to the real income of the previous year.

The Effect Of Local Revenue (PAD) On Economic Growth.

The hypothesis proposed in this study is "suspected of local revenue (PAD) has a positive effect on the economic growth of districts/cities in North Sumatera province". Based on the analysis results obtained that local revenue (PAD) has a positive and significant effect on economic growth in the short term. It can be seen from the value of the coefficient of positive value of 0.597281, so it can be interpreted that the regional original income variable (PAD) in accordance with the hypothesis and significantly affect the economic growth of districts/cities in North Sumatera province which can be seen from the significance probability value of $0.0056 < 0.05$, which means that the increase in local original income of 1 percent will cause an increase in economic growth of 0.597281 percent. This shows that local revenue has a positive influence on the economic growth of districts / cities in North Sumatera province in the short term.

Regional original income can increase economic growth, if a region has a high local original income will increase economic growth, in theory regional original income is derived from local taxes, regional levies, the results of regional-owned companies, and other legitimate regional income. The greater the local taxes, levies, the results of regional-owned companies, and others legitimate income,

the original income of the region will increase, the increase in local revenue should have an impact on the regional economy. The results of this study are in line with the research of Nale (2017), Priambodo (2013) where the results stated that PAD has a positive and significant influence on economic growth. According to Amin Pujiati (2008) in fact PAD is considered as capital accumulation will cause more externalities that are positive and will accelerate economic growth. Local revenue (PAD) is expected to increase from year to year in accordance with the conditions and potential of existing regions, and it is necessary to avoid efforts to increase tax revenue and regional levies that will increase the burden on the community and can cause economic distortions both short and long term.

In the long-term regional original income (PAD) negative and significant effect on economic growth, it can be seen from the negative value coefficient of -0.505967, so it can be interpreted that the variable Regional original income (PAD) is not in accordance with the hypothesis but significantly affect the economic growth of districts / cities in North Sumatera province which can be seen from the value of probability significance of $0.0000 < 0.05$, which means that the increase in local revenue (PAD) by 1% will cause the economic growth of districts/cities in North Sumatera province to decrease by 0.505967 percent. This shows that the increase in local income has a negative influence on economic growth in districts/cities in North Sumatera province. It was found that there are some areas that keep the budget in the bank for too long, so that the realization of the budget in these areas becomes too late, because the funds can not be disbursed so that the realization of regional spending becomes hampered. The realization of the APBD is clearly closely related to economic growth and economic improvement in general, the following are some districts / cities in North Sumatera province that store their funds in banks, including:

Table 2. List of regencies / cities in North Sumatera province that store APBD in the Bank

No	Regency / City	Total APBD
1	Medan	1,8 Triliun
2	Deli Serdang	636 Miliar
3	Tapanuli Utara	603 Miliar
4	Labuhan Batu	503 Miliar
5	Nias	466 Miliar
6	Toba Samosir	466 Miliar
7	Langkat	388 Miliar
8	Tapanuli Selatan	387 Miliar
9	Dairi	356 Miliar
10	Karo	335 Miliar
11	Mandailing Natal	334 Miliar
12	Sibolga	324 Miliar
13	Pematangsiantar	240 Miliar
14	Asahan	218 Miliar

Source: Kompas Daily

Local government funds deposited in banks are carried out for the formation of reserve funds, in addition, the local government prioritizes spending financed from General Transfer funds (DTU) and special Transfer funds (DTK) compared to sources of financing from PAD and other income. If the potential for large local government spending is realized Well, it will have an impact on the regional economic recovery quite significantly compared to simply obtaining additional banking services income obtained from deposited funds. Can be interpreted that the local original income (PAD) is not successful in increasing economic growth, Local Government has the task of improving the welfare of the community requires PAD as a form of regional independence regional autonomy era as a benchmark of economic growth seen from economic growth from year to year

The results of this study are in line with the results of the Paat research, et al (2015) regional original income negatively affects economic growth and Mamuka research, et al (2019) which states that the test results did not succeed in proving a significant influence on economic growth, where the high PAD is not necessarily able to increase economic growth. According to Brata (2004), covering the period after regional autonomy so that the relationship between PAD and economic growth can lead to a negative relationship if the region is too intensive in an effort to increase regional acceptance

The Effect Of Employee Spending On Economic Growth.

The hypothesis proposed in this study is " it is suspected that employee spending has a positive effect on the economic growth of districts / cities in North Sumatra province". Based on the results of the analysis, it was found that employee spending had a negative and insignificant effect on economic growth in the short term. It can be seen from the value of the coefficient of negative value of - 0.038057, so it can be interpreted that the variable of employee spending is not in accordance with the hypothesis and does not significantly affect the economic growth of districts/cities in North Sumatra province which can be seen from the significance probability value of $0.8322 > 0.05$, which means that employee spending does not significantly affect the economic growth of districts/cities in North Sumatra province in the short term . This indicates that employee spending does not directly affect economic growth, where there are problems related to the realization of employee spending contained in the IHDP (overview of regional examination results) in 2019 through the BPK (regional Audit Agency) report of the North Sumatra provincial representative does not match/ exceed the provisions of the realization of spending that is not deposited into the regional treasury for overpayment of employee spending activities found in eight local governments, namely : Pemrov. North Sumatra, Pemko. Medan, District Government. Deli Serdang, Pemkab. Mandailing Christmas, Pemkab. West Nias, South Nias Regency, Regency. Central Tapanuli, where the problem is the realization of official travel is not in accordance with the provisions, employee spending (salaries and allowances) is not in accordance with the provisions, and spending on socialization activities of DPRD members is not supported by legitimate SPJ.

In theory, according to the Ministry of finance, employee spending is compensation in the form of money and

goods given to civil servants, state officials, and retirees and honorary employees who will be appointed as employees of the government environment either in return for work that has been carried out in order to support the duties and functions of government organizational units. This study is in line with the research Bachtiar,et al (2015) which states that the growth of employee spending negatively affects economic growth and does not show a significant relationship to economic growth.

In the long term, employee spending has a positive and insignificant effect on economic growth, it can be seen from the positive value coefficient of 0.061688, so it can be interpreted that the employee spending variable is in accordance with the hypothesis but does not significantly affect the economic growth of districts/cities in North Sumatra province which can be seen from the significance probability value of $0.3878 > 0.05$, which means that employee spending does not significantly affect economic growth in the long term. This indicates that employee spending has not been followed by increasing growth, where spending on employee pay is increasing due to an increase in the number of employees, increasing employee costs compared to the number of employees, causing an economic slowdown in North Sumatra province, this is in accordance with Hakim's research (2019) which states that employee spending does not significantly affect economic growth, this is because that spending on employee pay increases and growth becomes slow. The realization of employee spending was recorded in the APBD summary on average of 49.51% of the total regional spending in the research period has not been able to meet the needs of employees in the district/city government in North Sumatra province, where employee spending has not played a role as a means of compensation given to regional employees in return that has been implemented as a driver to increase work productivity in implementing regional development.

According to Badruddin (2011) the receipt of salaries and honorarium in the regions concerned by civil servants will be a factor of income that will be used to buy goods and services will cause demand for goods and services in accordance with consumer needs, so there will be economic activity that will shape economic growth. This study is in line with research conducted by Bachtiar, et al (2015) which states the growth of employee spending does not show a significant relationship to economic growth. The results of this study are inversely proportional to the results of research Hutabarat (2013) and Deswanto (2017) which states that there is a positive and significant relationship between employee spending with economic growth, the composition of employee spending is quite large useful in maximizing economic growth.

The Effect Of Shopping For Goods And Services On Economic Growth.

The hypothesis put forward in this study is "allegedly shopping for goods and Services has a positive effect on the economic growth of districts/cities in North Sumatra province". Based on the analysis results obtained that the expenditure of goods and services have a positive and insignificant effect on economic growth in the short term. It can be seen from the value of the coefficient of negative value of -0.282827, so it can be interpreted that the variable expenditure of goods and services in accordance with the hypothesis but not significantly affect the economic growth of districts/cities in North Sumatra province which can be seen from the significance probability value of $0.5360 > 0.05$, which means that the expenditure of goods and services is not significantly affect the economic growth of districts/cities in North Sumatra province in the short term. The ratio of goods and services expenditure is used to measure the portion of goods and services expenditure to total regional expenditure. Spending on goods and services that have no effect on economic

growth is due to the allocation of goods and services spending in districts/cities in North Sumatra province is more widely used to finance local government operational activities such as official travel, ATK, and less productive operational spending so that it does not contribute positively to encourage economic growth. This study is in line with the research Deswanto (2017) that the expenditure of goods and services be negative and insignificant influence on economic growth. Government activities can also have a negative effect on economic productivity, the government is too broad and conduct activities that are not on target, when this happens then negative results will appear and can hinder the occurrence of economic growth.

In the long-term expenditure of goods and services have a positive and insignificant effect on economic growth, it can be seen from the positive value coefficient of 0.0367717, so it can be interpreted that the variable expenditure of goods and services in accordance with the hypothesis but not significantly affect the economic growth of districts/cities in North Sumatra province which can be seen from the significance probability value of $0.7039 > 0.05$, which means that the expenditure of goods and services does not significantly affect economic growth in the long term.

Shopping for goods and services is a type of shopping used for the purchase of goods and services that have a useful life of less than 12 months in implementing local government programs and activities, for example the purchase of consumables, official travel and building maintenance. This indicates that shopping for goods and services does not directly affect economic growth because shopping for goods and services is disposable. Expenditure on goods and services that are not significant to economic growth is due to the allocation of goods and services spending is widely used to finance government operational activities and other less productive operational costs so that it does not contribute to the

economic growth of districts/cities in North Sumatra province.

This research is in line with Ismail's Research (2017) which states that shopping for goods and services has no effect on economic growth because higher shopping for goods cannot necessarily increase economic growth, and Pangestu research (2018) which states that shopping for goods and services has no significant effect on economic growth. The results of this study are inversely proportional to the opinion of Badrudin (2012) which states that government spending on goods and services will cause demand for goods and services that are responded by producers to produce goods and services in accordance with the needs that will lead to economic growth in the area, and Fitri research (2019) which states that employee spending has a positive and significant effect on economic growth.

Effect Of Capital Expenditure On Economic Growth

The hypothesis proposed in this study is "capital expenditure is suspected to have a positive effect on the economic growth of districts / cities in North Sumatra province" Based on the results of the analysis, it was found that capital expenditure had a positive and insignificant effect on economic growth in the short term. It can be seen from the value of the coefficient of positive value of 0.337753, so it can be interpreted that the variable capital expenditure in accordance with the hypothesis but not significantly affect the economic growth of districts/cities in North Sumatra province which can be seen from the significance probability value of $0.2362 > 0.05$, which means that capital expenditure does not significantly affect the economic growth of districts/cities in North Sumatra province in the short term. This is indicated because there is still less precise policy allocation of capital expenditure so that it is not able to encourage an increase in regional production. Capital expenditure is used to measure the portion of capital expenditure spent on total regional

expenditure in order to provide services to the community. Capital expenditure is a type of expenditure used for expenditures made in the framework of procurement of tangible fixed assets that have a benefit value of more than 12 months for use in government activities, for example, the purchase of land, building construction, and road repair in order to accelerate public services.

In the long term capital expenditure has a positive and significant effect on economic growth, it can be seen from the positive value coefficient of 0.249246, so it can be interpreted that the variable capital expenditure in accordance with the hypothesis and significantly affect the economic growth of districts / cities in North Sumatra province which can be seen from the significance probability value of $0.0029 < 0.05$, which means that the increase in employee spending by 1% will cause the economic growth of districts/cities in North Sumatra province to increase by 0.0249246 percent in the long term. It can be interpreted that capital expenditure directly affects economic growth, where capital expenditure as a formator of infrastructure development in the region has an important role in increasing equitable economic growth.

Capital expenditure is used to build infrastructure in the form of roads, educational facilities, health facilities and other supporting infrastructure that can increase economic activity and investment in districts/cities in North Sumatra province that cause demand for goods and services needed by local governments in an effort to improve community services. Capital expenditure will provide a multiplier effect, which will be able to increase government investment spending.

The publication of the Directorate General of Budget (2016) explains that investment expenditure is aimed at the formation of assets (capital stock) in the future which is expected to cause a large and sustainable multiplier effect, multiplier effect such as land acquisition and purchase

of capital goods (capital stock) physically and increase output in the future, direct productive investments called economic and social “infrastructure” investments, such as highway construction, electricity supply, water supply and sanitation improvement and so on. Then investment in human resources is expected to have a positive impact on the level of labor productivity, so that it can have an impact on labor productivity, such as the formation and expansion of MSMEs (micro, small and Medium Enterprises) so as to increase the scale of production results and create sustainable output in the long term.

This research is in line with Deswanto Research (2017) that capital expenditure has a positive and significant effect on economic growth, and Waryanto Research (2017) that capital expenditure has a positive and significant effect on economic growth. Capital expenditure realized by the local government will cause demand for goods and services in an effort to improve community service, this states economic activity in the region that will increase economic growth, capital expenditure is a form of investment which is Capital expenditure as expenditure/expenditure costs that provide benefits for more than one year and are used in government purposes that are economically, socially, and other benefits so as to improve the ability of the government to serve the community. This study is contrary to Bachtiar research (2015) states that capital expenditure has a negative influence on economic growth.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Based on the results of the study it can conclude as follows:

1. The previous year's economic growth had a positive and insignificant effect on the current year's economic growth in the short term.
2. Local revenue (PAD) has a positive and significant effect on the economic

growth of districts/cities in North Sumatera province in the short term, and in the long term local revenue (PAD) has a negative and significant effect on the economic growth of districts/cities in North Sumatera province.

3. Employee spending has a negative and insignificant effect on the economic growth of districts/cities in North Sumatera province in the short term, and in the long term employee spending has a positive and insignificant effect on the economic growth of districts/cities in North Sumatera province.
4. Shopping for goods and services has a negative and insignificant effect on the economic growth of districts/cities in North Sumatera province in the short term and in the long term shopping for goods and services has a positive and insignificant effect on the economic growth of districts/cities in North Sumatera province.
5. Capital expenditure has a positive and insignificant effect on the economic growth of districts/cities in North Sumatera province in the short term, and in the long term capital expenditure has a positive and significant effect on the economic growth of districts/cities in North Sumatera province.

RECOMMENDATIONS

The suggestions of researchers from the research that has been done are as follows:

1. The role of local revenue (PAD) is very important in increasing regional revenue that can be used to be able to finance infrastructure improvements in the region, therefore it must be maximized part of the sources of regional revenue, one of which is a regional company that must play an active role as one of the sources of regional revenue, because regional companies are made to achieve profits used for regional development funds and increase economic growth in the region must be done with adequate work by the local government in this

case it is necessary to analyze the performance of one of them using financial measurement dimensions, internal operations, as well as innovation to regional companies and other regional sources of income. The government needs to establish a balanced policy and jointly carry out reforms in increasing local revenue.

2. For local governments as policy makers in the distribution of regional spending in this case the expenditure of employees, goods and services and capital expenditure needs to be maximized properly. Local governments should design the allocation of regional spending as an important part of an important instrument in increasing the production of goods and services in the regional economy that have a long-term impact in supporting sustainable economic growth. A good allocation of regional spending will increase economic growth not only in terms of consumption but also can increase the amount of production of goods and services, in the construction of public facilities should not only be allocated within the city but also on remote roads leading to the location of resources that allow to increase economic growth such as tourism areas, potential resource areas, etc.
3. Suggestions that should be done by the next researcher in order to correct the shortcomings in this study so that the research variables PAD, regional spending in this case the expenditure of employees, goods and services and capital expenditure is not only sourced from the local government budget of the district/city, but also can take data from vertical agencies in the District/City.
4. For students who want to research the next in the future who will use research methods using the ARDL Panel related to this research in order to increase the number of years to be studied, because in the ARDL Panel can see the influence in the long term and short term variables

that will be examined so that the results become better and can also be used as a guideline to take sustainable economic policy.

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