



Optimizing Regional Budget Management through Financial Ratio Analysis

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DOI: <https://doi.org/10.61987/bamj.v1i2.278>

Abstract:

This study aims to analyze regional financial performance and regional financial capacity of the City Government. The data analysis in this study is descriptive quantitative by calculating the financial ratios of the Regional Revenue and Expenditure Budget (APBD). These data were obtained through the Notes to the Financial Statements (CaLK) for 2017-2021. The results of this study indicate that the regional financial performance of Surakarta City in 2017-2021 shows the ratio of independence included in the delegative relationship pattern with the highest ratio of independence in 2021 of 102.82%. The rise and fall of the independence ratio is also accompanied by the rise and fall of the dependency ratio in the medium to low category and the ratio of the degree of fiscal decentralization in good condition. The ratio of effectiveness and efficiency ownsource revenue receipts has also fluctuated, but the level of effectiveness has been adjusted effectively to very effective and the efficiency is still focused on being very good or efficient. Regional Government spending is still prioritized for direct spending with a ratio of direct and indirect expenditure of 35.61% to 64.39%. Furthermore, the position of locking the regional financial capacity is in quadrant II, namely low share and high growth with an average share of 45.93% and an average growth of 106.62%. While the results of the calculation of the City Financial Capability Index for Fiscal Years 2017 to 2021, the index scale shows the number 0.938, This means that the Financial Capability is high. The implication of this study is that the City Government has shown good financial performance during the period under investigation, with the independence ratio increasing over time.

ARTICLE HISTORY

Received 12 Feb 2024

Revised 11 March 2024

Accepted 1 May 2024

KEYWORDS

Regional Performance, Financial Capacity, Public Sector, Regional Financial Sector

INTRODUCTION

Regional finance is the main foundation that supports economic stability and community welfare at the local level (Wang et al., 2021; Hansen, 2022; Zaini, 2023; Zuhdi et al., 2024). This role cannot be underestimated because its success greatly affects social, economic, and infrastructure conditions in a region (Ajide & Dada, 2022; Sternberg, 2022; Khan et al., 2022; Faiz et al., 2023). Local governments are directly responsible for managing financial resources efficiently and effectively to meet the needs of their communities and support necessary development programs (Cvetković et al., 2021; Bakhtiar, 2021; Arifin, 2024).

Cite in APA style as:

Anggraini, D. E., & Prayoga, B. E. D., (2024). Financial Ratio Analysis of Semarang City Regional Budget (APBD) 2017-2021. *Business and Applied Management Journal*, 1(2), 65-77.

In Indonesia, the concept of decentralization gives authority to local governments to manage their finances according to local characteristics and needs (Siryk et al., 2021; Pradana, 2021; Setiawan et al., 2022; Tolang & Dibaba, 2022; Khotimah et al., 2024). This means that local governments have autonomy in making financial policies that are more in line with local realities and potential (Padeiro et al., 2021; Maisuroh & Aisyah, 2024; Maulidia, 2023). Thus, they can allocate public funds more precisely and responsively to the needs of their communities (Rijal, S. (2023; Schaffer, L. M., Oehl, B., & Bernauer, T. (2022; Purwanto & Wafa, 2023).

However, the task of managing regional finances is not easy (Candraningrat et al., 2021; Ridlo & Yanti, 2023; Sandi et al., 2021). Local governments must be able to carry out financial management functions responsibly and transparently (Saputra, 2021; Iacuzzi, 2022; Sofyani et al., 2022; Sanjani, 2024). They must ensure that any funds used have been directed to provide maximum benefits for community welfare and regional development. In the context of regional finance, efficiency and accountability are key (Abhayawansa et al., 2021; Grossi et al., 2022; Safitri, 2024). Local governments need to ensure that every expenditure has been properly justified and measurable in accordance with the development priorities that have been set (Hasbi et al., 2024; Afifah et al., 2022; Islamiah & Maulidiah, 2024). In addition, they must also be able to optimize regional revenues through various sources, such as taxes and levies, and manage them well in order to make a maximum contribution to regional development.

Semarang City, as one of the economic and government centers in Central Java Province, has a strategic role in encouraging economic growth and community welfare in the region. As a rapidly growing metropolitan city, Semarang City is the center of trade, industry, and service activities that contribute significantly to the regional economy. In carrying out its role as an economic center, Semarang City Government has a great responsibility in managing its finances wisely and efficiently. Good financial management will enable local governments to meet the needs of their communities, as well as support various development programs needed to improve the quality of life of their residents.

The challenges faced by Semarang City in managing its finances are not small. Changing economic dynamics, rapid population growth, and increasing demands for public services are factors that affect regional financial conditions. Therefore, the evaluation of regional financial performance and financial capacity of Semarang City Government is very important in evaluating the extent of success in carrying out governance and development functions at the local level. Through an in-depth analysis of regional finances, strengths and weaknesses in financial management can be identified, as well as formulate appropriate strategies to improve the effectiveness and efficiency of public funds.

Research on Semarang City regional finance plays an important role in revealing the dynamics of the economy and community welfare at the local level. However, there are a number of interesting aspects that have not been deeply explored. First, the importance of identifying strategies to increase the financial independence of local governments. By exploring factors that influence financial independence, such as fiscal policy and spending efficiency, research can provide new insights into how local governments can manage their financial resources more effectively. Second, there is a need to investigate the impact of national fiscal policy on the regional financial performance of Semarang City. Through in-depth analysis, research can uncover complex relationships between national economic policies and regional financial capabilities, as

well as provide appropriate policy recommendations to improve regional financial stability. By deepening the understanding of the regional financial performance of Semarang City, this research is expected to provide a more holistic view of the challenges and opportunities in regional financial governance in the future.

The study by Andjarwati et al. (2021), highlights the financial independence of local governments in Indonesia. Using data from a number of cities in Indonesia, including Semarang City, this study aims to evaluate the extent to which local governments can achieve financial independence in managing their budgets. Furthermore, a study by Saputra & Setiawan (2021), examined the level of dependence of local governments in Indonesia on external sources of revenue. Through data analysis from a number of regencies and cities in Indonesia, including Semarang City, this study aims to identify factors that influence regional financial dependence. This is also supported by research conducted by Ghifara et al. (2022), analyzing the efficiency of local government spending in Indonesian cities. By analyzing data from a number of cities, including Semarang City, this study aims to evaluate how efficiently the use of local budgets in supporting local development.

These studies provide a deeper understanding of regional financial performance in Indonesia, including important variables in the regional budget. By considering the findings of these studies, further research is expected to make a further contribution in the understanding of regional financial management and regional development in Semarang City. However, based on previous research studies that have been described previously, there is a gap and there is still no focus on research related to economic growth, especially on the subject in the city of Semarang.

Thus, the novelty in this study is the application of a more in-depth longitudinal analysis, which involves monitoring the regional financial performance of Semarang City during the 2017-2021 period continuously. With this approach, research can explore changes in financial performance trends from year to year and identify factors that influence those fluctuations. In addition, the use of more sophisticated spatial analysis methods can provide a deeper understanding of regional financial distribution patterns in Semarang City. By mapping financial data into regional maps, research can reveal development gaps between regions and help formulate more equitable and inclusive policies. By integrating these approaches, the research can provide a more comprehensive insight into the regional financial performance of Semarang City and its implications for the overall development of the region.

RESEARCH METHOD

This study adopts a quantitative descriptive approach to analyze the regional financial performance and regional financial capability of the Semarang City Government during the 2017-2021 period. A descriptive approach is used to provide a clear and comprehensive picture of the regional financial condition based on existing data (Chuanchen, 2023). The analysis was conducted by calculating various financial ratios of the Semarang City Regional Budget (APBD), including the ratio of regional financial independence, dependency ratio, degree of fiscal decentralization, effectiveness and efficiency ratio of Regional Original Revenue (PAD), compatibility ratio of APBD spending, and ratio of regional financial capacity with share and growth. The data used was obtained through the Notes to the Financial Statements (CaLK) of Semarang City for the period. With this approach, the study aims to provide a deeper understanding of the

financial condition of Semarang City as well as trends that may occur during the time period studied.

To collect data, this study uses secondary data obtained through Notes to the Financial Statements (CaLK) of Semarang City for the 2017-2021 fiscal year. These data include various information related to the Semarang City Regional Budget (APBD), including regional revenues and expenditures and other relevant components. Data collection was carried out by examining official financial documents issued by the Semarang City Government for the time period studied. This data collection technique was chosen because it provides direct and accurate access to regional financial information required for analysis (Hasanah & Hefniy, 2023).

The data analysis technique used in this study involves calculating various financial ratios of the Semarang City Budget that are relevant to the research objectives. These ratios include the ratio of regional financial independence, dependency ratio, degree of fiscal decentralization, effectiveness and efficiency ratio of Regional Original Revenue (PAD), ratio of compatibility of APBD spending, and ratio of regional financial capacity to share and growth. The calculation of these ratios is carried out by processing financial data that has been collected in the period studied. The results of this analysis will provide a deeper understanding of the regional financial performance of Semarang City during the time period studied and its implications for regional development policies (Safitry et al., 2021; Wijaya & Khoir, 2022).

RESULTS AND DISCUSSION

In this discussion, we will describe in detail the types and approaches of research used, data collection methods carried out, and data analysis techniques applied in order to analyze regional financial performance and regional financial capabilities of the Semarang City Government during the 2017-2021 period. With a deeper understanding of the methodological approach and analysis process used in this study, it is expected to provide a comprehensive picture of the regional financial condition of Semarang City and its implications in development policy making at the local level.

Regional Financial Performance Analysis

Analysis of regional financial performance is the main focus in this study. Through a quantitative descriptive approach, the regional financial performance of the Semarang City Government during the 2017-2021 period was analyzed comprehensively. Some of the indicators used in this analysis include the ratio of regional financial independence, dependency ratio, degree of fiscal decentralization, effectiveness and efficiency of Regional Original Revenue (PAD), and compatibility of APBD spending. The results of this analysis are expected to provide a deep understanding of the regional financial health of Semarang City and the potential challenges faced in managing the regional budget. Thus, the results of this analysis can be the basis for formulating policies that are more effective in supporting development and community welfare at the local level.

Table 1. Independence Ratio

Fiscal Year	Realization of PAD	Government Assistance and Loans	Self-reliance Patterns	Relationship
2021	2.385.944.758.477	2.320.535.370.128	102,82%	Delegative
2020	2.024.537.808.307	2.276.517.182.012	88,93%	Delegative
2019	2.066.333.418.588	2.420.442.701.342	85,37%	Delegative

2018	1.935.290.836.052	2.335.260.495.454	82,87%	Delegative
2017	1.862.771.710.964	2.148.101.585.903	86,72%	Delegative

This is also reinforced from the following chart:

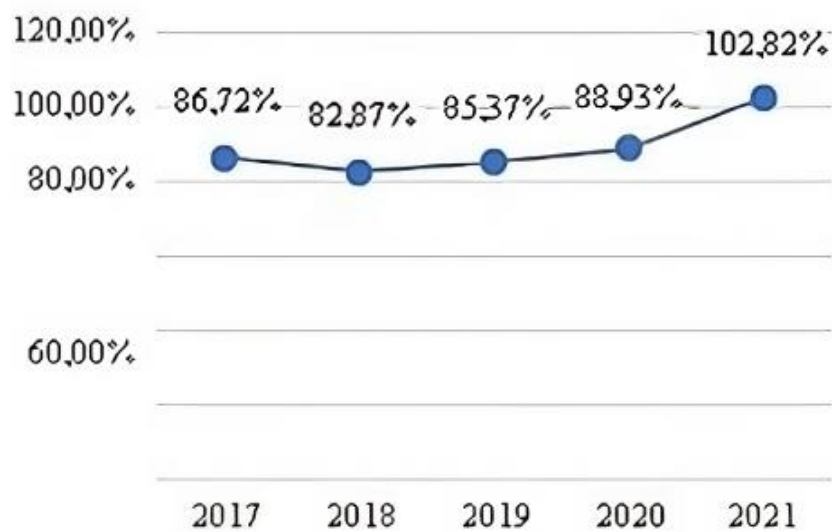


Figure 1. Independence Ratio

The independence ratio by Figure 1 of the Semarang City Regional Government in 2017-2021 is included in the pattern of delegate relations, meaning that the intervention of the Central Government does not exist because the Semarang City Regional Government has been truly able to carry out its regional autonomy affairs. This can be seen through the level of independence ratio of Semarang City which is more than 80%. In 2018, the level of independence of Semarang City had decreased by 3.85% from the previous year which was recorded at 86.72%, but the level of independence of Semarang City increased again from 2019-2021. This increase was due to an increase in PAD in 2019 of Rp. 2,066,333,418,588 and in 2021 of Rp. 2,385,944,758,477. The highest self-reliance ratio reached 102.82% in 2021. This condition is certainly accompanied by a decrease in the dependence of the Semarang City Regional Government on the Central Government.

Table 2. Dependency Ratio

Fiscal Year	Income Transfer	Total Regional Revenue	Race Dependency	Pola Relationship
2021	2.320.535.370.128	4.822.887.281.737	48,12%	Low
2020	2.230.424.054.663	4.400.500.838.480	50,69%	Medium
2019	2.385.669.301.342	4.565.340.827.417	52,26%	Medium
2018	2.335.260.495.454	4.418.974.319.148	52,85%	Medium
2017	2.146.203.629.164	4.076.721.488.187	52,65%	Medium

The data by Table 2, reflects transfer revenue and total regional revenue of Semarang City Government during the 2017-2021 period. In 2021, transfer revenue reached 2,320,535,370,128, while total regional revenue was 4,822,887,281,737. This results in a dependency ratio of 48.12%, indicating a low level of regional financial dependence on central government transfers. Meanwhile, in 2020, transfer revenue amounted to 2,230,424,054,663 with total regional revenue of 4,400,500,838,480,

resulting in a dependency ratio of 50.69%, indicating a moderate level of dependence.

During the period 2017 to 2019, the dependency pattern ratio was in the range of 52-53%, indicating a moderate level of dependence. This variation shows a change in the dependence of local finances on central government transfers from year to year. Thus, this data analysis provides an understanding of the dynamics of Semarang City's regional income and the level of dependence of regional finances on funding sources from the central government.

Table 3. Fiscal degrees

Fiscal Year	Income Transfer	Total Regional Revenue	Degree Ratio Decentralization Fiscal	Criterion Fiscal Decentralization
2021	2.385.944.758.477	4.822.887.281.737	49,47%	Good
2020	2.024.537.808.307	4.400.500.838.480	46,01%	Good
2019	2.066.333.418.588	4.565.340.827.417	45,26%	Good
2018	1.935.290.836.052	4.418.974.319.148	43,80%	Good
2017	1.862.771.710.964	4.076.721.488.187	45,69%	Good

The ratio of the degree of fiscal autonomy of the Semarang City Regional Government tends to increase from year to year, although it has decreased from 45.96% to 43.80% in 2018. This condition improved in 2019 which was recorded at 45.26, in 2020 at 46.01%, and in 2021 at 48.45%. This shows that the degree of fiscal decentralization is quite stable with a gradual increase from year to year. Thus, this indicates that the ability of the Semarang Regional Government to find its own source of income and manage the revenue obtained can be said to be 'good' and continue to make changes for the better.

Table 4. Fiscal degrees

Fiscal Year	Realization of PAD Receipts	Target PAD Acceptance	Effectiveness Ratio	Effectiveness Criteria
2021	2.385.944.758.477	2.607.693.085.682	91,50%	Effective
2020	2.024.537.808.307	1.889.598.813.000	107,14%	Highly Effective
2019	2.066.333.418.588	2.128.176.142.000	97,09%	Highly Effective
2018	1.935.290.836.052	1.811.352.288.800	106,84%	Highly Effective
2017	1.862.771.710.964	1.759.489.667.483	105,87%	Highly Effective

The effectiveness ratio describes the ability of local governments to collect Local Original Revenue from their real targets/potentials. The revenue effectiveness ratio of Semarang City Government tends to fluctuate. In 2017 the effectiveness ratio was at 105.87%, 106.84 in 2018, 97.09% in 2019, 107.14 in 2020, and 91.50% in 2021. The realization of Semarang City PAD in 2019 and 2021 that did not meet the target could be caused by two possibilities. First, the PAD target set in the APBD is unrealistic or too high compared to the estimated real potential. Second, there is a possibility that some potential sources of income cannot be collected because taxpayers or levy payers from the Semarang City Regional Government avoid the obligation to pay taxes and levies.

Table 5. Efficiency Ratio

Fiscal Year	Realization of PAD Receipts	Target PAD Acceptance	Efficiency Ratio	Efficiency Criteria
2021	2.385.944.758.477	96.153.573.767	4,03%	Highly Efficient
2020	2.024.537.808.307	129.975.327.293	6,42%	Highly Efficient
2019	2.066.333.418.588	86.992.636.923	4,21%	Highly Efficient

2018	1.935.290.836.052	102.957.472.478	5,32%	Highly Efficient
2017	1.862.771.710.964	89.226.764.955	4,79%	Highly Efficient

The table above shows that the efficiency ratio of local revenue receipts is the same as its effectiveness which tends to fluctuate. In this case, the efficiency ratio describes the budget and its realization obtained in the current fiscal year. In 2018, it is known that the efficiency ratio was 5.32% which increased from 2017 which was recorded at 4.79%. In 2019 it decreased to 4.21% and a significant increase in 2020 which was recorded at 6.42%, not enough until there in 2021 the efficiency of regional original revenue fell back to 4.03%. Although the efficiency ratio of the original revenue receipt of Semarang City has fluctuated, the level of efficiency is still categorized as very good or efficient. This shows that the Semarang City Government continues to make improvements in the management of its local original revenue.

Table 6. Spending Compatibility Ratio

Fiscal Year	Total Spend Indirect	Total Spend Immediately	Total Spend Area	Indirect Spending Ratio	Direct Spending Ratio
2021	1.636.339.014.000	3.127.706.932.000	4.764.045.946.000	34,35%	34,35%
2020	1.812.743.675.209	2.316.168.870.551	4.128.912.545.760	43,90%	43,90%
2019	1.629.584.494.970	3.004.349.846.003	4.633.934.340.973	35,17%	35,17%
2018	1.461.293.941.510	3.045.113.688.234	4.506.407.629.744	32,43%	32,43%
2017	1.394.853.668.718	2.934.088.978.723	4.328.942.647.441	32,22%	32,22%

This ratio is used to measure the compatibility of expenditure realization, such as the ratio of total indirect expenditure to total direct expenditure. Based on the table above, it shows that the ratio of compatibility of spending between indirect spending and direct spending at the Semarang City Regional Government is still not balanced. Semarang City Regional Government expenditure is still prioritized for direct spending. Although both indirect and direct expenditure ratios fluctuated, the ratio of direct and indirect expenditure was 35.61% compared to 64.39%. Thus, the compatibility of Semarang City Regional Government spending is still categorized as not good, which requires better financing management for the following years.

Regional Financial Capability Analysis

In the analysis of regional financial capacity, the main focus is on the ability of Semarang City Government to manage financial resources to meet the needs and support various necessary development programs. Regional financial capability is viewed from several aspects, including the ratio of regional financial capability to share and growth. This ratio illustrates the position of mapping regional financial capabilities in the share and growth quadrant, which shows how much regional revenue contributes to total national income and the growth rate of regional income from year to year.

Table 6. Elastisitas, Growth, and Share

Year	Local Revenue	Total Spend Immediately	Value	Percent	Growth
2021	2.385.944.758.477	3.127.706.932.000	0,76284154	76,28%	117,85%
2020	2.024.537.808.307	2.316.168.870.551	0,87408903	76,28%	97,98%
2019	2.066.333.418.588	3.004.349.846.003	0,68778056	68,78%	106,77%

2018	1.935.290.836.052	3.045.113.688.234	0,63553976	63,55%	103,89%
2017	1.862.771.710.964	2.934.088.978.723	0,63487226	63,49%	
Average			0,71902463	71,90%	106,62%

Table 7. Elastisitas, Growth, and Share

Year	Local Revenue	Total Spend Immediately	Value	Percent
2021	2.385.944.758.477	4.764.045.946.000	0,5008232	50,08%
2020	2.024.537.808.307	4.128.912.545.760	0,4903320	49,03%
2019	2.066.333.418.588	4.633.934.340.973	0,4459134	44,59%
2018	1.935.290.836.052	4.506.407.629.744	0,4294531	42,94%
2017	1.862.771.710.964	4.328.942.647.441	0,4303064	43,03%
Average			0,4593656	45,93%

Based on information on elasticity, growth, and share, a performance map of Semarang City PAD can be displayed as an overview of regional financial capabilities. The PAD performance map is displayed through the Quadrant and Index methods. From the calculation of Share and Growth of the LRA of the Semarang City Government for Fiscal Year 2017 to 2021, the average Share data is 45.93% and the average Growth is 106.62%. Thus, the position of mapping the regional financial capability of Semarang City based on the Quadrant method, is in quadrant II, namely low share and high growth. That is, conditions are not ideal, but the elasticity of the ratio of PAD to Direct Expenditure shows that the Semarang City Regional Government has the ability to develop local potential in exploring potential PAD sources so that PAD has a large role in Total Expenditure with an average elasticity of 71.90%.

Table 8. Elasticity Index

Year	Value	Condition Maximum	Condition Minimum	Index
2021	0,76284154	0,87408903	0,63487226	0,535
2020	0,87408903	0,87408903	0,63487226	1,000
2019	0,68778056	0,87408903	0,63487226	0,221
2018	0,63553976	0,87408903	0,63487226	0,003
2017	0,63487226	0,87408903	0,63487226	0,000
Total				1,759
Average				0,352

Table 9. Index PAD (Growth)

Year	Value	Condition Maximum	Condition Minimum	Index
2021	2.385.944.758.477	2.385.944.758.477	1.862.771.710.964	1,000
2020	2.024.537.808.307	2.385.944.758.477	1.862.771.710.964	0,309
2019	2.066.333.418.588	2.385.944.758.477	1.862.771.710.964	0,389
2018	1.935.290.836.052	2.385.944.758.477	1.862.771.710.964	0,139
2017	1.862.771.710.964	2.385.944.758.477	1.862.771.710.964	0,000
Total				1,837
Average				0,367

Table 10. Index Role PAD (Share)

Year	Value	Condition Maximum	Condition Minimum	Index
2021	0,5008232	0,5008232	0,4294531	1,000
2020	0,4903320	0,5008232	0,4294531	0,853
2019	0,4459134	0,5008232	0,4294531	0,231
2018	0,4294531	0,5008232	0,4294531	0,000
2017	0,4303064	0,5008232	0,4294531	0,012
Total				2,096

The elasticity index aims to see the sensitivity or elasticity of PAD to the economic development of a region. While the share index is used to see the capacity of regional financial capabilities. The Financial Capability Index (IKK) is used as an indicator to see the level of readiness of a region in facing the era of autonomy, as well as to evaluate the development of regional financial performance after entering the era of autonomy. CCI consists of three components, namely elasticity index (XE), share index (XG), and sensitivity index (XS). The calculation of the CCI of the Semarang City Regional Government in 2017-2021 is carried out by adding the values of XE, XG, and XS, then dividing by 3.

In the case of the Semarang City Regional Government, the CCI calculation produces a figure of 0.938 for the 2017-2021 period. This figure shows that the financial capability of Semarang City is high. This high level of financial capability is largely due to the high independence ratio, which shows that the Semarang City Government has a very high level of financial independence. This means that Semarang City has a good ability to manage its own financial resources without being too dependent on transfers from the central government.

Thus, the results of this CCI calculation provide a positive picture of the readiness and financial performance of the Semarang City Regional Government in facing the era of autonomy. The high level of financial capability shows that Semarang City has great potential to manage its finances well and support various development programs needed for the welfare of the community at the local level.

Similar analysis related to the Regional Financial Capability Index as an indicator of regional financial independence has been conducted in various studies in Indonesia. A study by Wijaya & Solikhi (2022) highlighted the importance of the IKK in evaluating the financial performance of local governments, especially in the era of regional autonomy, with a focus on regional dependence on central transfer funds. This study shows that regions with high IKK values have better ability to manage local revenue (PAD) and reduce dependence on central allocation funds. In addition, Anirwan et al. (2024) study also identified factors that influence high IKK in several regions, including innovation in budget management and optimization of local resources. These findings strengthen the financial analysis of the Semarang City Government, whose high Index value in the 2017-2021 period indicates a level of readiness.

The contribution of this research lies in a deeper understanding of the regional financial performance of Semarang City during the 2017-2021 period, which is reflected through the analysis of financial ratios such as independence, dependability, and effectiveness of Regional Original Revenue (PAD). In addition, this study provides a clear picture of the financial capability of Semarang City through the calculation of the Financial Capability Index (IKK), which shows a high level of financial capability, mainly due to the high level of regional financial independence. The methodological contribution of this research lies in the use of quantitative descriptive approaches and financial ratio calculations, which can be a guideline for researchers and practitioners in measuring and analyzing regional financial performance comprehensively. Thus, the results of this study have significant relevance in the development of public policy and regional financial management in Indonesia, and provide a foundation for further research in this field.

CONCLUSION

Based on the results of the analysis of the regional financial performance of Semarang City for the 2017-2021 period, it can be concluded that the independence ratio of the Semarang City Regional Government is included in the delegative relationship pattern. This is indicated by the highest independence ratio in 2021 of 102.82%, indicating a good ability to carry out regional autonomy affairs. Fluctuations in the ratio of effectiveness and efficiency of local original income indicate a change in revenue management. The priority of expenditure that is still focused on direct spending shows the seriousness in using the budget for the direct benefit of the community. The results of the Share and Growth calculation show the position of mapping the regional financial capabilities of Semarang City in quadrant II, with low share and high growth. Finally, the high Financial Capability Index of Semarang City, of 0.938, indicates a strong financial capability in supporting development in Semarang City.

Further research recommendations can be focused on several aspects that still require further understanding related to Semarang City regional finance. First, the study can look deeper into the factors that influence fluctuations in the ratio of effectiveness and efficiency of local original income and their impact on overall regional financial performance. Second, further research can explore strategies that can be applied to increase regional financial independence and optimize expenditure in order to support sustainable development in Semarang City. In addition, research on the influence of fiscal policy and the national economy on regional financial capacity is also an interesting topic for further research. Thus, further research is expected to provide deeper insights and concrete solutions in improving the regional financial performance of Semarang City and supporting sustainable development in the future.

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