Jurnal Borneo Administrator
Volume 22 (1) 2026: 69-82
P-ISSN: 1858-0300, E-ISSN: 2407-6767
DOI: 10.24258/jba.v22i1.1689
Accredited by KEMENDIKTISAINTEK No. 10/C/C3/DT.05.00/2025

ARTICLE

The Impact of Regional Revenue and Expenditure Budget (APBD) Deficits on Fiscal Sustainability and Government Performance in Pangandaran Regency

Ai Siti Farida[1], and Suhendar[2]

[1]*Public Administration Study Program, UIN Sunan Gunung Djati Bandung, Bandung, Indonesia*
[2]*Information and Communication Technology Unit for Education, Dinas Pendidikan Provinsi Jawa Barat, Bandung, Indonesia*

How to cite: Farida, Ai Siti & Suhendar. (2026). The Impact of Regional Revenue and Expenditure Budget (APBD) Deficit on Fiscal Sustainability and Government Performance in Pangandaran Regency. *Jurnal Borneo Administrator,* 22(1), 69-82. https://doi.org/10.24258/jba.v22i1.1689

Article History
Received: 24 February 2025
Accepted: 13 March 2026

Keywords:
APBD Deficit;
Fiscal Sustainability;
Public Finance;
Fiscal Decentralization;
Pangandaran Regency.

ABSTRACT
The deficit in the Regional Revenue and Expenditure Budget (APBD) poses a critical challenge to fiscal sustainability in Pangandaran Regency. This study aims to analyse the impact of the APBD deficit on local governance by examining the causes, implications, and potential strategies to improve fiscal stability. A descriptive qualitative approach was used, with document analysis as the main method. Data were collected from official documents of the Pangandaran Regency Government, including regional regulations related to the 2021–2025 APBD, as well as from academic literature published on Google Scholar, academic portals, and other reliable sources between 2010 and 2025. The study results show that the APBD deficit in Pangandaran follows a recurring pattern, with the highest level reaching 35.50% of total revenue in 2023. This region remains heavily dependent on transfers from the central government, which account for more than 77% of its annual revenue. Expenditures are mostly directed towards personnel and operational costs, while capital expenditures are trending downward. From the perspective of Public Finance Theory, Fiscal Decentralization Theory, and Fiscal Sustainability Theory, this condition poses a risk to regional fiscal capacity and may hamper long-term economic development. To address these challenges, this study recommends practical strategies: optimizing Local Own-Source Revenue (PAD) through tourism and creative industries; reallocating expenditures toward productive capital investments; and implementing performance-based budgeting to strengthen fiscal discipline. The contribution of this study lies in providing theoretical insights and concrete policy recommendations in public administration, particularly in strengthening regional fiscal independence and resilience in managing recurring budget deficits.

A. INTRODUCTION

Law Number 23 of 2014 and Law Number 1 of 2022 emphasise that regional autonomy aims to improve the welfare of the community by optimising regional revenue sources, improving spending effectiveness, and fostering fiscal policy synergy. In addition, regional financial management aims to strengthen public services, empower communities, and enhance regional competitiveness, while adhering to the principles of democracy, justice, and regional characteristics within the Unitary State of the Republic of Indonesia (NKRI) system (Magdalena et al., 2023). The success of regional autonomy depends on a region's ability to

* Corresponding Author
Email : aisitifarida@uinsgd.ac.id

finance its government independently (Magdalena et al., 2023). In accordance with Ministry of Internal Affairs Regulation Number 15 of 2024, which refers to Government Regulation Number 12 of 2019, regional financial management must be carried out in an orderly, efficient, transparent, and accountable manner, prioritising compliance with regulations and the benefits for the community. Local governments are expected to prepare the APBD in a more planned and efficient manner, ensuring that regional budget policies align with national policies and local needs.

Regional financial management is a fundamental aspect of governance because it determines the effectiveness of development and the quality of public services provided to the community. The Regional Budget (APBD) is the main instrument for implementing local government policies, so its management must be carried out in accordance with the principles of accountability, efficiency, and transparency (Mardiasmo, 2021). One of the main challenges in APBD management is the budget deficit, where government expenditure has been planned to be greater than government revenue (Restu & Dahtiah, 2023)

After understanding the normative context and principles of ideal regional financial management, it is necessary to see how the fiscal reality on the ground reflects various implementation challenges, one of which is in Pangandaran Regency. Pangandaran Regency has experienced persistent Regional Budget (APBD) deficits, with the highest level recorded in 2023 at IDR 462.5 billion, equivalent to 35.50% of total revenue. According to the Audit Board of the Republic of Indonesia (BPK), the regency also received a Qualified Opinion (*Wajar Dengan Pengecualian*/WDP) on its financial statements, particularly in cash, debt, and expenditure accounts (BPK RI, 2024); JDIH Pangandaran, 2024). This condition was triggered by several contributing factors, including underachievement in revenue realization, suboptimal budget planning, and the escalation of regional spending without a proportional increase in Local Own-Source Revenue (PAD). The recurring nature of these deficits reflects a structural fiscal issue rather than a temporary shock. From a public finance and fiscal decentralization perspective, this trend poses a significant challenge to regional fiscal autonomy and raises concerns regarding the sustainability of local governance. Despite Pangandaran's strategic potential as a tourism-based region, its limited fiscal capacity illustrates the vulnerability of newly autonomous regions in maintaining independent and stable financial management, making it a relevant case for further academic inquiry.

The high reliance on transfer funds from the central government further narrows Pangandaran Regency's fiscal space, potentially reducing the flexibility of regional fiscal policy in the long run. Deficits that persist for several consecutive years indicate fiscal instability that poses risks to governance and the quality of public services (Pesik et al., 2020).

If this condition is not addressed immediately, Pangandaran Regency risks a more profound fiscal crisis. An uncontrolled deficit could force the local government to continue relying on debt financing, ultimately increasing the budget burden and reducing fiscal space for development. In addition, the region's inability to manage its budget sustainably could erode public trust in local government and hinder the achievement of regional development goals (Blanchard et al., 2021). Therefore, a comprehensive strategy is needed to manage the APBD deficit and strengthen regional fiscal sustainability.

Several recent studies highlight the importance of fiscal capacity and budget management in supporting regional economic performance under Indonesia's fiscal decentralization system. Ginting, Hamzah, and Sofilda (2019) show that fiscal decentralization has a positive and significant effect on economic growth across districts and cities in Indonesia. However, most regions remain in a condition of low fiscal decentralization and low economic growth, reflecting limited fiscal space at the local level. This situation indicates that weak budget capacity and suboptimal expenditure allocation can constrain regional development outcomes. Furthermore, Mulyadi (2016) emphasised the importance of budget discipline in maintaining regional fiscal sustainability and showed that budget imbalances can negatively impact regional fiscal capacity if not appropriately managed. Widiyantoko (2019), in their analysis of Indonesia's fiscal sustainability, suggests that an unchecked deficit trend could trigger long-term fiscal imbalances, especially if not balanced with a disciplined fiscal strategy. Research by Ikhwani et al. (2020) examined the Flypaper Effect in Aceh Province and found that the contribution of the General Allocation Fund (DAU) to local expenditure exceeded that of Local Own Revenue (PAD), indicating a high dependence on central transfers. Swasito (2021) also found that regional expenditure policy is more responsive to DAU than to PAD, indicating that dependence on central transfer funds remains a significant problem in regional financial management.

Furthermore, Febrianti & Adnyana (2022) examined the fiscal resilience of local governments in Indonesia and found that financial statement surpluses/deficits had a significant impact on the fiscal resilience of districts/cities during 2016-2018. Restu & Dahtiah (2023) highlighted the factors that caused the APBD deficit in West Bandung Regency during 2019-2021, including adjustments to the Regional Government Work Plan (RKPD) and the economic crisis, which affected the allocation of regional expenditure, particularly personnel expenditure. Lastly, Amirullah et al. (2024), In their study in Majene Regency, they found that the budget deficit was caused by failing to meet the PAD target and by a lack of planning in implementing activity programs. However, studies specifically examining the long-term implications of APBD deficits in coastal or tourism-based regencies, such as Pangandaran, remain limited.

This study contributes to the discussion on fiscal sustainability by analyzing regional budget deficit patterns using recent data and Bohn's (1998) Theory of Fiscal Sustainability. Focusing on Pangandaran Regency through 2025, it evaluates how local fiscal policies maintain financial stability without reducing the quality of public services. Using a descriptive qualitative approach, the research explores the causes of deficits, their policy implications, and local government strategies to enhance fiscal independence by increasing local revenue and reducing reliance on central transfers.

Unlike previous studies on fiscal dependence across regions, this study explicitly maps Pangandaran's deficit patterns and their implications for fiscal sustainability. Although limited by the use of qualitative secondary data, the findings are expected to offer data- and theory-based recommendations for developing more effective and sustainable regional fiscal policies.

B. LITERATURE REVIEW

Public Finance

Public Finance Theory was first developed by Musgrave (1959). In his book The Theory of Public Finance: A Study in Public Economy. This theory holds that public financial management has three main functions: allocation, distribution, and stabilisation. The allocation function concerns how financial resources are used to provide public goods and services that society needs. The distribution function relates to how the government regulates income and expenditure to achieve economic balance and social welfare. Meanwhile, the stabilisation function aims to maintain economic stability through effective fiscal policy.

Transparency and accountability are essential principles in public financial management reform, particularly through the adoption of performance-based budgeting to improve the efficiency and effectiveness of public fund utilisation (Mardiasmo, 2021)

In the context of this research, APBD deficits can affect regional fiscal performance, particularly by optimising local revenue and expenditure efficiency to reduce dependence on central transfers. Thus, public finance theory provides a conceptual basis for analysing how regional fiscal policy should be managed to remain sustainable and effectively meet the community's needs.

Fiscal Decentralization

The Fiscal Decentralization Theory was introduced by Oates (2011) in his book Fiscal Federalism. Oates emphasises that fiscal decentralisation gives local governments the authority to manage their own revenues and expenditures, enabling them to be more responsive to local community needs. With decentralisation, local governments are expected to have greater flexibility in determining budget priorities, optimising local revenues, and improving expenditure efficiency. However, the effectiveness of fiscal decentralisation in increasing regional fiscal independence remains constrained by various challenges. One of the main challenges is the region's limited capacity to manage financial resources independently. found that fiscal decentralisation has not fully succeeded in improving the efficiency of regional spending because there are still inequalities in fiscal capacity between regions. In addition, reliance on transfer funds from the central government remains a significant obstacle to increasing regional fiscal independence (Azwar, 2022). A study by Hussain & Anis (2024) shows that fiscal decentralization can positively impact regional economic growth when managed transparently and accountably.

In this study, the theory of fiscal decentralisation is used to analyse how Pangandaran Regency utilises its fiscal authority to address the APBD deficit and the extent to which fiscal decentralisation can increase regional financial capacity. If decentralisation is not accompanied by an increase in Regional Original Revenue (PAD), the effectiveness of regional fiscal policy in overcoming deficits will be increasingly limited.

Fiscal Sustainability

Fiscal Sustainability Theory was developed by Henning Bohn (1998) in his research, The Behaviour of U.S. Public Debt and Deficits. This theory emphasises that fiscal policy is sustainable if the government can balance revenue and expenditure without risking a fiscal crisis. The leading indicators used in this theory are the ratio of debt to gross domestic product (GDP), the trend of budget deficits, and the primary balance in the government budget (Blanchard et al., 2021).

Widiyantoko (2019) mentioned that fiscal sustainability in Indonesia is still weak due to high debt and suboptimal revenue capacity. Although there is a short-term relationship between expenditure and state revenue, political stability and the exchange rate do not significantly influence state revenue. Meanwhile, Dominikus & Fransiskus (2024) emphasised that a primary balance-to-GDP surplus can help reduce the debt ratio and support fiscal stability in the long run. Macroeconomic factors such as economic growth, interest rates, inflation, and exchange rates also significantly influence fiscal sustainability.

In this study, fiscal sustainability theory is used to analyse the impact of the APBD deficit in Pangandaran Regency on regional fiscal stability. More optimal deficit management is needed to avoid burdening fiscal capacity in the future, and strategies to increase local revenue and expenditure efficiency are crucial.

Flypaper Effect

In addition to the theory of fiscal sustainability, this study considers Gramlich's (1990) concept of the Flypaper Effect. The Flypaper Effect explains that regions that receive large amounts of transfer funds tend to allocate their budgets to regional expenditures rather than optimizing their own revenue sources. In other words, transfers from the central government play a greater role in determining local spending policies than local own-source revenues (PAD). A study by Swasito (2021) found that local government spending policy in Indonesia is more influenced by changes in the General Allocation Fund (DAU) than PAD, indicating a high dependence on central transfer funds. Ikhwani et al. (2020) reinforce these findings by showing that the Flypaper Effect occurs significantly in most regions, especially in the use of DAU. This high fiscal dependency risks weakening regional budgetary independence.

In this study, the Flypaper Effect is used to analyze the extent to which Pangandaran Regency's dependence on central transfer funds affects regional spending policies and the impact on regional fiscal sustainability. If this dependence continues without efforts to diversify revenue sources, the region's capacity to address the APBD deficit will become increasingly limited.

C. METHOD

This research uses a qualitative, document-analysis approach to examine the impact of the APBD deficit on governance in Pangandaran Regency. This method was chosen because it allows the researcher to evaluate fiscal policy using secondary data from official government documents and relevant academic literature.

The data in this study were obtained from official government documents, including local regulations on the amendment and preparation of the APBD from 2021 to 2025, as well as academic sources and publications on fiscal sustainability.

Table 1. Data Collection

Data Type	Source	Year
Official Government Documents	*Peraturan Daerah Kabupaten Pangandaran Nomor 8 Tahun 2021 tentang Perubahan APBD Tahun Anggaran 2021* (Pangandaran Regency Regional Regulation Number 8 of 2021 concerning Amendments to the APBD for Fiscal Year 2021).	2021
	Peraturan Daerah Kabupaten Pangandaran Nomor 13 Tahun 2022 tentang Perubahan APBD Tahun Anggaran 2022 (Pangandaran Regency Regional Regulation Number 13 of 2022 concerning Amendments to the APBD for Fiscal Year 2022).	2022
	Peraturan Daerah Kabupaten Pangandaran Nomor 7 Tahun 2023 tentang Perubahan APBD Tahun Anggaran 2023 (Pangandaran Regency Regional Regulation Number 7 of 2023 concerning Amendments to the APBD for Fiscal Year 2023).	2023
	Peraturan Daerah Kabupaten Pangandaran Nomor 9 Tahun 2023 tentang APBD Tahun Anggaran 2024 (Pangandaran Regency Regional Regulation Number 9 of 2023 concerning APBD for Fiscal Year 2024).	2024
	Peraturan Daerah Kabupaten Pangandaran Nomor 14 Tahun 2024 tentang APBD Tahun Anggaran 2025 (Pangandaran Regency Regional Regulation Number 14 of 2024 concerning APBD for Fiscal Year 2025).	2025
Literatur Akademik dan Sumber Relevan	Academic journals and research reports related to local finance, fiscal decentralization, and fiscal sustainability	2010-2025
	News articles and publications from trusted sources that discuss regional fiscal conditions	2010-2025
	Research databases such as Google Scholar, academic web portals, and other reference sources	2010-2025

Sumber: Processed by Researcher (2025)

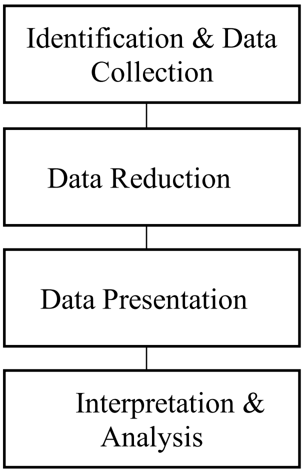

Figure 1. Data Analysis

The data analysis stages are shown in Figure 1. The process began with collecting secondary data from government documents, regional regulations, and relevant literature. The data were classified according to their relevance to fiscal sustainability and to Pangandaran's APBD deficit. After reducing irrelevant information, the interpretation stage linked the data with public finance theory and prior studies to identify patterns, causes, and impacts of the deficit. The results were then synthesized into a discussion connecting empirical findings with theoretical foundations.

D. RESULT AND DISCUSSION

Pangandaran Regency APBD Deficit Trend (2021-2025)

Pangandaran Regency experienced a continuous APBD deficit during the 2021-2025 period. The highest deficit occurred in 2023, accounting for 35.50% of total revenue, while in 2025 it decreased to 21.92%. This decline shows the local government's efforts to control the deficit, though the deficit remains relatively high overall. Recurring deficits indicate that regional fiscal capacity has not been optimal in balancing regional revenues and expenditures, especially in reducing dependence on external sources of financing (Blanchard et al., 2021).

The main factor influencing this deficit trend is the imbalance between revenue realization and the increasing need for regional expenditure. One cause is the faster growth in operating expenses than in regional revenue. In addition, challenges in optimizing regional own-source revenues (PAD) worsen the deficit, as PAD's contribution to total revenue remains relatively small compared to transfers from the central government. This dependence on external revenue sources indicates that the strategy of increasing local revenue through potential sectors such as tourism, local levies, and local investment has not been optimized.

Table 2. Pangandaran Regency APBD Deficit Trend (2021-2025)

Budget Year	Regional Revenue (IDR)	Regional Expenditure (IDR)	Deficit (IDR)	Percentage of Deficit to Revenue (%)
2021	1.281.176.275.453,00	1.673.484.677.719,05	(392.308.402.266,05)	30,62%
2022	1.536.995.565.513,00	1.877.420.151.136,00	(340.424.585.623,00)	22,15%
2023	1.302.690.603.923,00	1.765.209.967.458,00	(462.519.363.535,00)	35,50%
2024	1.220.017.848.987,00	1.584.017.848.987,00	(364.000.000.000,00)	29,84%
2025	1.252.696.019.629,00	1.527.346.019.629,00	(274.650.000.000,00)	21,92%

Source: JDIH Pangandaran 2021-2025, Processed by Researcher (2025)

Theoretically, the recurring deficit trend can be explained by fiscal sustainability theory, which emphasizes balancing local revenues and expenditures to avoid dependence on external financing. High deficits without a clear fiscal management strategy can increase fiscal risk in the long run, as the regional debt burden rises alongside reliance on loans or other unsustainable sources of financing. If the region is unable to increase its own revenue significantly, its dependence on central transfer funds will be greater, ultimately limiting the flexibility of regional fiscal policy (Oates, 2011).

From the perspective of public finance theory, a high APBD deficit can interfere with the allocation and stabilization functions of the regional budget. The allocation function, which should lead to investment in development and public services, is disrupted because local expenditure is mostly absorbed to cover operational needs. The high level of personnel, goods, and services expenditures relative to capital expenditures indicates that most regional budgets remain focused on routine expenditures, which can reduce regions' capacity to support economic growth and community welfare.

In addition, stabilization theory in public finance suggests that budget imbalances can affect regional economic stability. When local expenditure exceeds revenue, local governments must seek alternative financing to cover the deficit. If financing is done through borrowing or local debt without precise planning, this can lead to greater fiscal pressure in the future (Blanchard et al., 2021). Poorly managed debt will increase the budget burden for interest and principal repayments, reducing the fiscal space available to local governments to provide optimal public services (Blanchard et al., 2021).

From the perspective of fiscal decentralization theory, recurring deficits may also indicate that regional fiscal autonomy remains limited. One of the main objectives of fiscal decentralization is to provide regions with the flexibility to manage budgets according to local needs. However, if a region continues to experience deficits without an effective PAD increase strategy, then the fiscal decentralization policy is not working as intended. The low contribution of own-source revenues to total revenues indicates that local revenue potential is still not fully utilized, which, in turn, may limit regions' capacity to design more innovative and adaptive fiscal policies.

Furthermore, in the context of fiscal sustainability, uncontrolled deficits can increase reliance on regional loans, which, in the long run, can reduce fiscal space for more productive development programs. If fiscal management strategies are not geared towards sustainable revenue generation and expenditure efficiency, the risk of fiscal imbalances will be even greater (Dominikus & Fransiskus, 2024).

From the Flypaper Effect perspective, the high dependence on central transfer funds is also a factor influencing the Pangandaran Regency's APBD deficit pattern. This phenomenon shows that regions are more likely to allocate transfer funds to operational expenditures than to increase own-source revenues through additional policies. When local revenues come primarily from central transfers, the incentive to increase local own-source revenues becomes lower. As a result, local spending becomes increasingly dependent on national fiscal policies, which, in some cases, may limit local government flexibility in determining budget priorities based on local needs.

Dependence on Central Transfer Funds

Pangandaran Regency's local revenue is still dominated by transfers from the central government, which account for more than 77% of total local revenue. The high reliance on central transfers indicates that the region's fiscal independence remains low and is vulnerable to changes in national fiscal policy. The proportion of transfer funds that dominate the regional revenue structure indicates that regional own-source revenues have not become the primary source of funding regional expenditure needs. If this trend continues, Pangandaran Regency will become increasingly vulnerable to fluctuations in central policy, especially in the allocation of balancing funds.

Local governments face challenges in increasing PAD as an independent revenue source. The low PAD indicates that the optimization of leading sectors has not been fully effective. Factors such as low local investment, limited local revenue, and a lack of diversified revenue sources are among the leading causes of Pangandaran Regency's continued dependence on central government transfer funds.

Table 3. Dependence on Central Transfer Funds

Budget Year	Regional Original Revenue (IDR)	Fund Transfer (IDR)	Percentage of Transfer Funds to Revenue (%)
2021	150.261.866.550,00	1.089.509.108.903,00	85,04%
2022	296.136.212.846,00	1.240.859.352.667,00	80,73%
2023	215.022.163.013,00	1.087.668.440.910,00	83,49%
2024	240.459.023.439,00	979.558.825.548,00	80,29%
2025	276.241.947.419,00	976.454.072.210,00	77,95%

Source: JDIH Pangandaran 2021-2025, Processed by Researcher (2025)

The high dependence on central transfer funds can be explained by the Flypaper Effect, in which regions that receive large amounts of transfer funds tend to spend more rather than seek alternative sources of income. This shows that regions are more dependent on central funds than on optimizing PAD. This dependence reduces local governments' flexibility to adopt more innovative, adaptive fiscal policies that better meet local needs.

In addition, the Flypaper Effect also shows that transfer funds are more often allocated to routine expenditure than to development investment. In many cases, local governments choose to use transfer funds to cover operational needs, such as personnel expenditures and goods & services expenditures, rather than allocating them to capital expenditures that can promote regional economic growth.

In the theory of fiscal decentralization, high dependence on central transfer funds indicates that regional fiscal autonomy has not been fully achieved. Local governments that are still dependent on central funds have less room to maneuver in designing fiscal policies that suit local needs (Oates, 2011). In a decentralized system, regions should have greater capacity to manage their own revenues and expenditures, thereby improving the welfare of local communities.

The high dependence on central transfer funds can also limit regional fiscal autonomy. If the allocation of transfer funds decreases due to central policies, regions will face difficulties implementing development programs and providing public services.

In the context of fiscal sustainability, a high reliance on transfer funds risks undermining regional fiscal stability in the long run. If transfers from the central government decrease suddenly, regions without strong revenue sources will face greater fiscal pressure.

Pangandaran Regency Expenditure Structure (2021-2025)

The expenditure structure of the Pangandaran Regency shows that employee expenses and goods & services expenses account for the largest shares, each at 61.14% and 64.01% of total expenditure, respectively. Meanwhile, capital expenditure, which is meant to support regional development, has been declining year by year. If capital expenditure continues to decline, the region's capacity to support infrastructure development and strategic programs may become increasingly limited.

The increase in employee spending indicates that a large portion of the regional budget is used to finance government apparatus, including salaries and employee allowances.

Meanwhile, spending on goods and services, which also has a high share, indicates that regional expenditures are more directed towards fulfilling the government's operational needs. This indicates that regional spending is more absorbed by routine expenditures than by productive spending that can drive regional economic growth.

Table 4. Pangandaran Regency Expenditure Structure (2021-2025)

Shopping Category	2021 (IDR)	2022 (IDR)	2023 (IDR)	2024 (IDR)	2025 (IDR)	Average Percentage (%)
Employee Expenditure	420.804.611.372,68	460.595.490.694,00	506.116.664.978,00	530.893.248.641,00	538.971.484.792,20	61,14%
Goods & Services Expenditure	555.702.864.199,37	694.865.058.965,00	630.931.643.065,00	438.681.872.134,00	416.106.759.523,27	64,01%
Capital Expenditure	479.203.724.589,00	475.105.702.853,00	392.641.230.311,00	348.897.398.991,00	283.751.633.617,53	28,64%
Transfer Expenditure	163.665.434.648,00	196.104.043.124,00	177.034.777.580,00	192.206.619.971,00	186.837.884.896,00	9,78%

Source: JDIH Pangandaran 2021-2025, Processed by Researcher (2025)

The dominance of operational spending in the regional budget (APBD) indicates that the allocation is more directed towards meeting the government's routine needs than towards development investments. This relates to the allocation function in public finance theory, where budget management should be directed toward optimizing community welfare.

The decline in capital expenditure has become a significant concern in regional financial management because it could undermine support for infrastructure development, which is essential to improving community welfare and regional competitiveness. Investment in infrastructure, such as road construction, educational facilities, and healthcare services, is an essential driver of the region's economic growth. If the budget allocation for capital expenditure continues to decline, then long-term development programs may be hindered, and affect the quality of public services provided to the community (Blanchard et al., 2021).

Moreover, the spending structure, which tends to focus more on employee salaries and goods & services, indicates that most regional expenditures are used for bureaucratic purposes rather than productive investments. From the perspective of fiscal sustainability theory, this condition can threaten regional fiscal stability, especially if adequate increases do not keep pace with high operational spending relative to regional revenue.

In the theory of fiscal decentralization, unbalanced regional spending management can undermine the effectiveness of decentralization. Ideally, with fiscal decentralization, regions should have greater authority over their finances to improve community welfare. However, the high employee-to-capital expenditures indicate that regional budgets have not been optimally allocated to support sustainable economic development.

This condition can also be linked to the Flypaper Effect, in which central transfer funds received by regions are more often used for operational spending rather than long-term investments. This phenomenon can hinder regional efforts to improve fiscal independence, as dependence on central funds reduces the incentive for regions to optimize their own revenue sources (Gramlich, 1990). Furthermore, inefficient regional budget planning can be a significant factor in suboptimal spending patterns. If budget management strategies do not improve, the risk of fiscal imbalance may increase in the long term.

APBD Deficit Financing Strategy

The budget deficit of the Regional Revenue and Expenditure Budget (APBD) of Pangandaran Regency during the 2021–2025 period is primarily financed through receipts from regional loans and other sources. The imbalance between regional revenue and expenditure creates a strong need for additional financing to cover annual deficits. This strategy has become the local government's primary choice to ensure that development programs continue to run despite budget constraints.

In the context of fiscal sustainability, financing strategies that rely on regional loans need careful examination. Although debt financing can be a short-term solution to cover budget deficits, in the long run it can increase the resulting fiscal burden. The Fiscal Sustainability Theory proposed by Bohn (1998) highlights that an increase in debt without an effective fiscal management strategy can pose greater fiscal risks in the future. If regional debt continues to increase without improvements in regional revenue performance, the region's financial capacity to support development and public services will become increasingly limited.

Table 5. APBD Deficit Financing Strategy

Budget Year	Financing Receipt (IDR)	Financing Expenditures (IDR)	Net Financing (IDR)
2021	592.308.402.266,05	200.000.000.000,00	392.308.402.266,05
2022	495.424.585.623,00	155.000.000.000,00	340.424.585.623,00
2023	612.519.363.535,00	150.000.000.000,00	462.519.363.535,00
2024	380.000.000.000,00	16.000.000.000,00	364.000.000.000,00
2025	314.650.000.000,00	40.000.000.000,00	274.650.000.000,00

Source: JDIH Pangandaran 2021-2025, Processed by Researcher (2025)

From the table above, it can be seen that net financing has experienced quite significant fluctuations. In 2023, net financing reached its highest figure of Rp 462.5 billion, indicating that the local government is highly dependent on external financing to cover the budget deficit. In 2025, net financing decreased to Rp 274.6 billion, suggesting efforts to control the deficit, though the amount remains relatively large.

From the perspective of fiscal decentralization theory, a high reliance on debt financing can be an indicator that the region still lacks sufficient fiscal capacity to finance its expenditures independently (Oates, 2011). Fiscal decentralization should provide regions with greater flexibility to manage finances independently. However, the reality shows that most regions, including Pangandaran Regency, still face challenges in increasing their Local Revenue (PAD) sufficiently to cover their spending needs without relying on loans.

Moreover, a financing strategy that continues to rely on debt has implications for the regional fiscal space. If most of the budget is used to pay loan installments and interest, the allocation to strategic sectors such as infrastructure, education, and health can become increasingly limited. This can also reduce the regional budget's flexibility in responding to emergencies or unexpected economic changes. In the long term, reliance on debt can worsen the region's fiscal condition and limit opportunities for more productive public investment.

Inefficient management of regional debt can increase fiscal risk, especially if regional revenue growth is limited. In public finance theory, regional financing management must consider the balance between the debt burden and the regional revenue capacity to pay it off. (Musgrave, 1959) If the deficit continues to be financed with debt without an effective revenue-enhancement strategy, the regional fiscal balance can become increasingly vulnerable. Therefore, a more planned debt management strategy has become an urgent need in regional fiscal management.

In addition, the Flypaper Effect may be a factor contributing to the high level of debt financing in the regional budget (APBD). The Flypaper Effect explains that regions receiving large amounts of central government transfer funds tend to allocate more of their budgets to routine expenditures rather than investments that could enhance fiscal independence. If local governments continue to rely on loans to cover deficits without diversifying their sources of income, the effectiveness of budget utilization will continue to diminish.

Summary of Fiscal Sustainability Analysis

Table 6. Fiscal Sustainability Analysis

Aspect Analysis	Key Findings	Implications
Deficit Trend	Deficits occur every year, with the highest percentage in 2023 (35.50%)	Risk to regional financial stability if deficits are not managed properly
Transfer Fund Dependency	High dependence on transfer funds (>77%)	Low fiscal independence, need to increase own-source revenue (PAD)
Shopping Structure	Personnel and goods & services expenditures dominate (>60%)	Budget efficiency needs to be improved to support development
Financing Strategy	High net financing, mainly from regional loans	Risk of regional debt increases, needs better debt management

Source: Processed by Researcher (2025)

The annual budget deficit of Pangandaran Regency reflects the challenges in regional financial management, particularly in the functions of allocation, distribution, and stabilization as explained in public finance theory. From the perspective of public finance theory, one of the main functions of the regional budget is to allocate fiscal resources optimally to meet community needs (Musgrave,1959). The dominance of employee expenditures and goods and services expenditures in the budget structure indicates that most of the regional budget is allocated to routine government operations rather than to long-term investments that could enhance community welfare.

From the perspective of fiscal decentralization theory, Pangandaran Regency's heavy reliance on central transfer funds suggests it is not yet fully independent in managing its finances. Fiscal decentralization aims to provide regions with flexibility to manage revenue and expenditure according to local needs, but the reality is that PAD's contribution to total revenue remains very low compared to the transfer funds (Hussain & Anis, 2024). This situation indicates that the potential for local revenue has not been fully utilized, leaving the region with limited fiscal space to design more adaptive and innovative financial policies.

The recurring trend of regional budget deficits (APBD) is also a concern in the theory of fiscal sustainability. In this view, a persistent budget deficit can increase reliance on external financing and add long-term fiscal risk. If regional revenue capacity does not increase significantly while expenditure needs continue to grow, the region will face difficulties achieving a healthy fiscal balance (Blanchard et al., 2021). Thus, strategies to optimize regional revenue sources and improve spending efficiency need to be considered in regional fiscal management (Widiyantoko, 2019).

In the context of fiscal sustainability, the Flypaper Effect refers to how regions receiving large transfers tend to allocate them to routine spending rather than to increasing local revenue. This pattern appears in Pangandaran Regency, where transfer funds account for most of the revenue, while capital spending continues to decline.

The key challenge is reducing dependence on central transfers and strengthening fiscal capacity by optimizing local taxes and levies, and by improving asset utilization. Increasing PAD would enhance fiscal flexibility and gradually reduce reliance on transfers.

Excessive reliance on debt also threatens fiscal sustainability, as higher interest and repayment burdens limit productive investment. Overall, Pangandaran's fiscal challenges include high reliance on transfers, unproductive spending, and debt-based deficit financing.

Concrete efforts to increase Local Own-source Revenue (PAD), improve spending efficiency, and reduce reliance on debt are essential for sustainable fiscal stability.

E. CONCLUSION

Based on the analysis of Pangandaran Regency's APBD deficit over the 2021-2025 period, the deficit shows a recurring pattern, peaking in 2023 at 35.50%. This trend has a significant impact on the fiscal sustainability of the region, where high dependence on central transfer funds, which is always above 77% annually, reduces fiscal policy flexibility and hampers efforts to increase regional fiscal independence. This indicates the regions' limited fiscal capacity to self-fund expenditures, posing a risk to their long-term financial sustainability. The implications of these recurring deficits are also evident in the structure of regional expenditure, which is dominated by personnel expenditure and goods and services. In contrast, capital expenditure, which focuses on infrastructure development, continues to decline. This hampers regions' ability to support infrastructure development and attract investment, which, in turn, can sustainably increase PAD. This condition further worsens the region's fiscal situation, as reliance on external funding, such as local loans, continues to grow. In contrast, local own-source revenue (PAD) optimization remains unchanged. This study also examines the high reliance on central transfer funds, which reduces the flexibility of regional fiscal policy to design policies more adaptive to changing economic conditions and community needs. Such dependence limits regional fiscal policy's ability to diversify revenue sources and increase long-run fiscal independence. In addition, a deficit management strategy that still relies on regional loans, with no significant effort to optimize regional own-source revenues, poses a major risk to regional fiscal sustainability. Theoretically, the results of this study confirm that a recurring pattern of deficits can disrupt fiscal allocation and stabilization functions, as public finance theory predicts. It also reflects a weak principle of fiscal decentralization, in which regions should have greater autonomy in managing their finances without excessive dependence on central transfers. In addition, the fiscal sustainability risk posed by this deficit is consistent with fiscal sustainability theory, which suggests it could threaten regional economic stability. Fiscal sustainability compromised by recurring deficits may affect regions' ability to perform practical government functions and maintain public welfare.

To address the fiscal challenges, it is recommended that future research develop a regional fiscal sustainability measurement model that employs a more comprehensive quantitative approach. This would enable a deeper and more accurate analysis of regional fiscal conditions. Additionally, comparative studies with other regions experiencing APBD deficits could provide valuable insights into more effective fiscal management strategies that are adaptable to changes in economic conditions and national policies. From a practical perspective, the Government of Pangandaran Regency should strengthen fiscal capacity by optimizing Regional Own Source Revenue (PAD) through diversification of revenue sources. Strategic emphasis needs to be placed on tourism, creative industries, and regional investment as priority sectors with high potential to generate sustainable income. In parallel, expenditure efficiency should be improved by reallocating a larger share of the budget to productive capital spending, while gradually reducing the dominance of personnel and operational costs. Implementing performance-based budgeting and establishing reserve funds funded by tourism revenues are also recommended to enhance fiscal discipline. By adopting these measures, Pangandaran Regency can reduce dependence on central transfers, strengthen fiscal resilience, and mitigate the risks associated with recurring budget deficits.

REFERENCES

Amirullah, S., Edy, S. A., & Mus, S. F. (2024). Pengelolaan Keuangan Daerah: Sebuah Kajian Fenomenologi Terhadap Defisit Anggaran Kabupaten Majene. *Akunsika: Jurnal Akuntansi Dan Keuangan*, 09–18. https://doi.org/10.31963/akunsika.v0i0.4509.

Azwar, A. (2022). Analisis Dinamis Dampak Desentralisasi Fiskal Terhadap Efisiensi Belanja Kesehatan Dan Kesejahteraan: Studi Kasus Kabupaten/Kota Di Sulawesi Selatan. *Info Artha*, *6*(1), 49–62. https://doi.org/10.31092/jia.v6i1.1621.

BPK RI. (2024). *Laporan hasil pemeriksaan atas laporan keuangan Pemerintah Kabupaten Pangandaran tahun 2023* (Nomor: 43A/LHP/XVIII.BDG/05/2024, Buku I). BPK RI Perwakilan Provinsi Jawa Barat.

Blanchard, O., Leandro, A., & Zettelmeyer, J. (2021). Redesigning Eu Fiscal Rules: From Rules To Standards. *Economic Policy*, *36*(106), 195–236. https://doi.org/10.1093/epolic/eiab003.

Bohn, H. (1998). The Behavior Of U. S. Public Debt And Deficits. *The Quarterly Journal Of Economics*, *113*(3), 949–963. https://doi.org/10.1162/003355398555793.

Dominikus, L., & Fransiskus, T. (2024). Fiscal Sustainability Analysis In Managing State Debt. *Indonesian Treasury Review Jurnal Perbendaharaan Keuangan Negara Dan Kebijakan Publik*, *9*(1), 1–11. https://doi.org/10.33105/itrev.v9i1.855.

Febrianti, C., & Adnyana, I. G. S. (2022). Pengaruh Pendapatan Daerah, Belanja Daerah, Dan Surplus/Defisit Laporan Keuangan Pada Ketahanan Fiskal Pemerintah. *Jurnal Ilmiah Akuntansi Kesatuan*, *10*(1), 141–150. https://doi.org/10.37641/jiakes.v10i1.1266.

Ginting, A. M., Hamzah, M. Z., & Sofilda, E. (2019). The impact of fiscal decentralization on economic growth in Indonesia. Economic Journal of Emerging Markets, 11(2), 152–160. https://doi.org/10.20885/ejem.vol11.iss2.art3

Gramlich, E. M. (1990). *The Economics Of Fiscal Federalism And Lis Reform Dalam Swartz Dan Peck (Eds), The Change Face Of Fiscal Federalism, Armonk, Ny, M.E. Sharpe, Inc.* https://doi.org/10.4324/9781315289137.

Hussain, S. A., & Anis, A. (2024). Analisis Desentralisasi Fiskal, Pembangunan Manusia Dan Pertumbuhan Ekonomi Regional Di Indonesia. *Media Riset Ekonomi Pembangunan (Medrep)*, *1*(2).

Ikhwani, N., Naz'aina, N., & Ratna, R. (2020). Flypaper Effect Pada Pengaruh Dana Alokasi Umum, Dana Alokasi Khusus Dan Pendapatan Asli Daerah Terhadap Belanja Daerah Kabupaten/Kota Di Provinsi Aceh. *J-Mind (Jurnal Manajemen Indonesia)*, *4*(2), 111–123. https://doi.org/10.29103/j-mind.v4i2.3381.

Mardiasmo, 2021. *Akuntansi Sektor Publik*. Yogyakarta: Penerbit Andi.

Magdalena, Y. D., Yosefina, A. D., & Magdalena, S. S. (2023). Analisis Efisiensi Dan Efektivitas Pengelolaan Keuangan Daerah Di Kabupaten Sikka. *Jurnal Projemen Unipa*, *9*(2), 51–70. https://doi.org/10.59603/projemen.v9i2.44.

Mulyadi, M. S. (2016). Analisis Tingkat Kepatuhan Pemerintah Daerah Terhadap Pengaturan Batas Defisit Apbd. *Kajian Ekonomi Dan Keuangan*, *19*(2), 122–138. https://doi.org/10.31685/kek.v19i2.138.

Musgrave, R. A. (1959). *The Theory Of Public Finance: A Study In Public Economy*. Mcgraw-Hill. Retrieved from https://www.jstor.org/stable/1813080.

Oates, W. E. (2011). *Fiscal Federalism* (Illustrated, Reprint). Cheltenham: Edward Elgar.

Pesik, J. A. P., Saerang, D. P. E., & Manosoh, H. (2020). *Analisis Tren Pendapatan Asli Daerah Pemerintah Kota Manado*. *8*(3), 103–113. https://doi.org/10.35794/emba.v8i3.29538.

Restu, I., & Dahtiah, N. (2023). Analisis Faktor- Faktor Penyebab Defisit Anggaran Pendapatan Belanja Daerah (Studi Kasus Pada Pemerintah Kabupaten Bandung Barat

Tahun Anggaran 2019-2021). *Indonesian Accounting Research Journal*, *4*(1), 9–19. https://doi.org/10.35313/iarj.v4i1.5223.

Swasito, A. P. (2021). Apakah Fenomena Flypaper Effect Asimetris Terjadi Pada Kebijakan Belanja Pemerintah Daerah? *Jurnal Pajak Dan Keuangan Negara Vol.3, No.1, (2021), Hal.72-80*, *3*. https://doi.org/10.31092/jpkn.v3i1.1262.

Widiyantoko, S. (2019). *Analisis Sustainabilitas Fiskal Indonesia: Studi Di Era Peningkatan Utang*. Retrieved from https://repository.ub.ac.id/170251/.