

The Effect of Regional Revenue Diversification, Fiscal Decentralization, and Balance Funds on Fiscal Stress in Districts/Cities in South Sumatra Province

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ABSTRACT

Fiscal Stress is a condition of fiscal stress that consists of when regional financial capabilities are unable to keep up with regional spending needs. This study aims to empirically examine the impact of Regional Revenue Diversification, Fiscal Decentralization, and Balance Funds on Fiscal Stress in Regencies/Cities in South Sumatra Province in 2020-2024. The quantitative method was applied using secondary data from the Budget Realization Report (LRA) from the Directorate General of Financial Balance (DJPK). The research sample used a saturated sampling technique with a total of 85 data from 17 districts/cities and the data was analyzed using panel data regression (Eviews 13). Based on statistical analysis, Regional Revenue Diversification has a negative and significant effect on Fiscal Stress, while Fiscal Decentralization and Balance Funds partially do not have a significant effect. At the same time, these three variables have a significant effect on Fiscal Stress through the achievement of Adjusted R-Squared of 0.1229.

A. INTRODUCTION

The implementation of development at the regional level is an integral component of the national development agenda. Its operation is based on the principle of regional autonomy which delegates policies, rights, and obligations to local governments to lead governance and accommodate the needs of their communities independently. The implementation of regional autonomy in Indonesia is based on the main regulations, namely Law Number 23 of 2014 concerning Regional Government, as well as Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD Law) and Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments. The transfer of the policy is used to bring the reach of public services closer in order to accelerate the welfare of citizens. To support this, the handover of authority is also accompanied by the allocation of funding sources, both through the handover of regional tax rights and the distribution of transfer funds (Icih, Kurniawan, and Fadillah 2021). Through the HKPD Law, the structure of Transfer to Regions (TKD) or previously known as the Balance Fund is expected to be able to encourage an increase in the fiscal independence of local governments while optimizing the quality of services to the community (Law Number 1 of 2022). However, in practice, the implementation of regional autonomy faces major challenges related to limited fiscal capacity. Not all regions have the same readiness of resources to generate income independently to finance increasing spending. When regional spending grows faster than its income, there is a condition of fiscal pressure or Fiscal Stress.

Basically, the establishment of regional autonomy policies aims to accelerate the welfare of the community through the optimization of public services, citizen empowerment, and strengthening regional competitiveness (Law Number 23 of 2014). In practice, local governments need to recognize their authority in order to realize regional independence.



However, the capacity and readiness between regions in optimizing regional sources of income are actually uneven. Regions with limited resource capacity tend to be overwhelmed to meet their independent spending needs, so that the inability of revenue to cover these expenses triggers budget pressure or Fiscal Stress (Citra, Masnila, and Mubarak Husni 2024). Regional independence requires optimal utilization of fiscal potential and resources in order to minimize dependence on central transfers. However, in reality, this challenge is often faced by the majority of local governments in Indonesia.

Since the implementation of decentralization, financial stability at the regional level tends to experience significant fluctuations. Conditions Fiscal Stress itself refers to fiscal pressure that arises when the potential for regional revenue is unable to accommodate the required expenditure allocation. (Iciah et al. 2021). Fiscal Stress describes the conditions of fiscal pressure due to limited regional revenues, which has the potential to have a significant impact on the sustainability of public service provision (Arnett, 2011 in (Suryani and Windijarto 2023). This problem is further exacerbated by the presence of the COVID-19 outbreak that infected Indonesia starting in early 2020, where revenues faced a drastic decline which is an important part of PAD while regional spending needs actually increased sharply, This condition is further exacerbated by the budget refocusing policy that cuts DAU and DAK to handle the pandemic, so that the source of regional revenue from transfer funds is reduced (Minister of Finance Regulation Number 35/PMK.07/2020). Based on data from the Directorate General of Financial Balance (DJPK) of the Ministry of the Republic of Indonesia, fiscal conditions in Regencies/Cities in South Sumatra Province in 2020-2024 show symptoms Fiscal Stress which can be known from the comparison of PAD and Total Regional Expenditure. (Citra et al. 2024) in his research on Fiscal Stress in the Regencies/Cities in South Sumatra Province in 2018-2022 proves that only a few regions are included in the independent category, while most still show significant dependence on the distribution of funds from the central government.

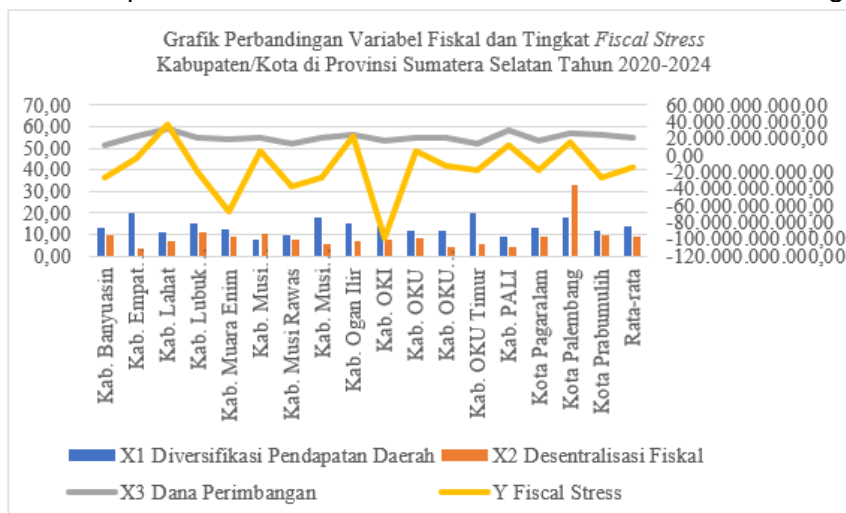


Figure Comparison Graph of Fiscal Variables and Fiscal Stress Levels

Based on Figure, it can be seen that there are differences in the variables of Regional Revenue Diversification, Fiscal Decentralization, Balance Fund, and *Fiscal Stress* in districts/cities of South Sumatra Province in 2020–2024. Data visualization indicates that the allocation of the Balance Fund recorded a relatively more dominant amount than Regional Revenue Diversification and Fiscal Decentralization. This shows that the allocation of the Balance Fund continues to play a crucial role in supporting the portion of regional revenue. Meanwhile, Regional Revenue Diversification and Fiscal Decentralization show a relatively lower value. In addition, the *Fiscal Stress* value also shows variations between regions. These differences in conditions show that each region has different fiscal conditions (DGTK of the Ministry of Finance, 2020–2024).

B. THEORETICAL STUDY

Peacock and Wiseman's Theory

(Peacock, Alan T. & Wiseman 1961) In The Growth of Public Expenditure in the United Kingdom, local governments try to find sources of revenue such as taxes to finance expenses that tend to increase. However, this is not liked by the public because of the increasing tax burden. Under normal circumstances, the Gross National Product (GNP) will also increase so that government revenues will be higher in line with increasing government spending. This condition ultimately forms a ladder-like spending growth pattern (*step-like process*) which is a plateau that is getting higher and separated by peaks of expenditure that coincide with the occurrence of major disturbances such as war or economic crisis (Q, Haryadi, and Gowon 2021).

(Peacock, Alan T. & Wiseman 1961) explained that there are three effects of disruption that cause the tax rate not to return to its original condition. First, *displacement effect* (replacement effect), namely the shift of activities from the private sector to the government due to social disruption. Second, *inspection effect* (inspection effect), which is increased attention to the role of the government after economic turmoil. Third, *concentration effect* (concentration effect), namely the shift of activities that were previously carried out by the private sector to be centralized in the government. These three effects cause the role of the government to be greater so that the tax rate remains higher even though conditions have returned to normal. (Q et al. 2021).

Fiscal Stress

According to Havemann and Hylton in (Sandrayati, Aryani, and Soleh 2024) *Fiscal Stress* is a condition that reflects the gap between public demands for public services and the government's capacity to provide these services in line with the resources they have. Shamsub and Akoto in (Sandrayati et al. 2024) Causes of occurrence *Fiscal Stress* can be grouped into three categories. First, economic cyclical conditions, such as slowing economic growth and recession, which can trigger the occurrence of *Fiscal Stress*. Second, the weakening of business activities and the decline in the industrial sector which reduces the ability of the regions to earn income. Third, political factors and uncontrolled financial conditions that increase pressure on the government's fiscal capacity.

Fiscal Stress is calculated using the following formula:

$$\text{Fiscal Stress} = \text{Pendapatan Daerah} - \text{Belanja Daerah}$$

Regional Revenue Diversification

Local governments strive for a diversity of sources of Regional Original Revenue (PAD) so that they do not depend on one specific type of income. Through this strategy, local governments explore all revenue potentials optimally to strengthen fiscal capacity. Based on Law Number 1 of 2022, the source of PAD is determined to include regional taxes, regional levies, the results of segregated regional wealth management, and other legal PAD.

Regional Revenue Diversification is calculated using the following formula:

$$\text{Pendapatan Lain-lain PAD} / \text{Total Pendapatan Daerah} \times 100\%$$

Fiscal Decentralization

Based on Law Number 23 of 2014, decentralization is the delegation of authority from the central government to the government to support the implementation of the principle of regional autonomy. The implementation of decentralization is directed to improve, accelerate the realization of community welfare, provide more optimal public services, and increase the effectiveness of governance.

Based on Law Number 33 of 2004, fiscal decentralization is the delegation of policies in the financial sector to local governments in order to be able to manage and manage their fiscal



capacity independently. The policy includes the management of regional sources of income and financing as a form of support for the implementation of regional autonomy. Through this authority, local governments are expected to be able to carry out the development and provision of public services by adjusting the characteristics, potentials, and needs of each region.

Fiscal Decentralization can be calculated using the following formula:

$$\text{Pendapatan Asli Daerah} / \text{Total Pendapatan Daerah} \times 100\%$$

Balance Fund

The central government distributes balance funds to regional emerintas through the State Revenue and Expenditure Budget (APBN) to support the implementation of fiscal decentralization. Provisions regarding the balance fund are regulated in Law Number 1 of 2022 which regulates the balance fund which includes the Profit Sharing Fund (DBH), the General Allocation Fund (DAU), and the Special Allocation Fund (DAK).

The Balance Fund can be calculated using the following formula:

$$\text{Total Dana Perimbangan} / \text{Total Pendapatan Daerah} \times 100\%$$

Frame of Mind

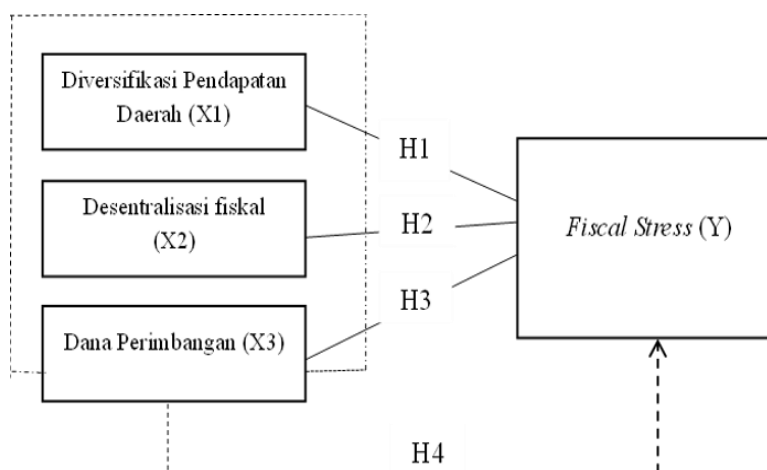


Figure Frame of Mind

Hipotesis

(Putri, Dewata, and Aryani 2024) explained that the diversity of regional sources of income has a significant relationship with *Fiscal Stress*. This shows that increasing income diversification can be a factor to help local governments in reducing fiscal pressure. Meanwhile, the research of Ichi et al. (2021) gave different results, namely that regional income diversification has not been proven to have a significant effect on *Fiscal Stress* based on simultaneous testing. The difference in the results of the previous research is a consideration for researchers in compiling research hypotheses:

H1: It is suspected that Regional Revenue Diversification has an effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province

Fiscal decentralization has a negative relationship with *Fiscal Stress* local governments, which shows that regions with better levels of fiscal independence have the potential to experience lower fiscal pressures (Sandrayati et al. 2024). (Azzahra, Arifin, and Dwitayanti 2023) and (Nurhaliza et al. 2025) confirms the negative relationship between fiscal decentralization and *Fiscal Stress*. Based on these findings, the researcher formulated a hypothesis:

H2: It is suspected that Fiscal Decentralization has an effect on *Fiscal Stress* in Districts/Cities in South Sumatra Province

(Putri et al. 2024) stated that the balance fund has a positive and significant effect on *Fiscal Stress*. These results show that an increase in balance fund revenues does not necessarily reduce fiscal pressures, because the amount of transfer funds obtained can illustrate that local governments are still dependent on central government funding. These findings are supported by research by Suryani and Windijarto (2023) showing that balance funds have a positive and significant relationship with *Fiscal Stress*. Based on these findings, the researcher formulated a hypothesis:

H3: It is suspected that the Balance Fund has an effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province

(Citra et al. 2024) Simultaneous testing proves that all independent variables have a significant effect on *Fiscal Stress* local governments, including the Fiscal Balance and Decentralization Fund. These results show that a combination of various regional fiscal aspects can provide a broader understanding in explaining conditions *Fiscal Stress* an area. Based on these findings, the researcher formulated a hypothesis:

H4: It is suspected that Regional Revenue Diversification, Fiscal Decentralization, and Balance Fund simultaneously affect *Fiscal Stress* in Regencies/Cities in South Sumatra Province.

C. RESEARCH METHODS

This study utilizes a quantitative approach with a descriptive research type to analyze the variables studied. The Budget Realization Report (LRA) from the official website of the Directorate General of Financial Balance (DJPK) is used as research data. The object of the research covers all Regencies/Cities of South Sumatra Province in 2020–2024. Sampling was carried out using a saturated sampling technique, so that all members of the population were used as samples, namely 85 observations from 17 districts/cities during five years of observation. Research data was collected through documentation techniques.

The linear regression equation model of this research panel includes:

$$Y_{it} = \alpha + \beta_1 DPD_{it} + \beta_2 DF_{it} + \beta_3 DP_{it} + e_{it}$$

According to (Basuki 2021), explained that panel data modeling utilizes three estimation approaches, namely *Common Effect Model (CEM)*, *Fixed Effect Model (FEM)*, and *Random Effect Model (REM)*. The best models on panel data analysis are selected through a series of tests, including *Chow Test*, *Hausman Test*, and *Lagrange Multiplier Test* to determine the most appropriate estimation method to use.

D. RESULTS AND DISCUSSION

Research Results

Descriptive Statistics

According to (Ghozali and Ratmono 2017), explaining that descriptive statistics aims to describe and explain the characteristics of the data used in research. Through data processing using the EViews program, descriptive statistical analysis presents several statistical parameters, including mean values, medians, maximum values, minimum values, and standard deviations.



Date: 05/09/26 Time: 16:03
Sample: 2020 2024

	LOG_Y	X1	X2	X3
Mean	24.40846	13.57097	8.997522	59.12815
Median	24.65955	12.65645	7.514978	59.70585
Maximum	28.78257	30.29372	35.45446	78.14551
Minimum	20.11685	5.123470	2.674735	32.17062
Std. Dev.	1.564518	4.904453	6.482536	9.069553
Skewness	-0.420755	1.194612	2.970865	-0.434219
Kurtosis	3.490924	4.694751	11.84636	3.333266
Jarque-Bera	3.361556	30.38953	402.1996	3.064426
Probability	0.186229	0.000000	0.000000	0.216057
Sum	2074.719	1153.533	764.7893	5025.893
Sum Sq. Dev.	205.6082	2020.508	3529.955	6909.570
Observations	85	85	85	85

Source: Outsourced processed data (Eviews 13), 2026

Chow Test

The Chow test was carried out to determine the best model for panel data regression analysis through the comparison of Common Effect Model (CEM) and Fixed Effect Model (FEM). According to Sugiyanto et al. (2022), the model was chosen based on the probability value of Cross-section F. If the probability is > 0.05 , CEM is used, while the probability < 0.05 is used FEM.

Redundant Fixed Effects Tests
Equation: MODEL_FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.342858	(16,65)	0.1997
Cross-section Chi-square	24.275324	16	0.0837

Source: Outsourced processed data (Eviews 13), 2026

The probability value of Cross-section F in the Chow Test was 0.1997 (> 0.05), so CEM became the chosen model.

Hausman Test

The Hausman test is used to determine the best estimation method between the Fixed Effect Model (FEM) and the Random Effect Model (REM). According to (Sugiyanto et al. 2022), the model is selected based on the Random Cross-section probability value. If the probability is > 0.05 , REM will be used, while if the probability is < 0.05 , FEM will be used.

Correlated Random Effects - Hausman Test
Equation: MODEL_REM
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.347074	3	0.2263

Source: Outsourced processed data (Eviews 13), 2026

The value of the Random Cross-section probability in the Hausman Test is 0.2263 (> 0.05), so REM is chosen as the model.

Uji Lagrange Multiplier

The Lagrange Multiplier (Breusch–Pagan) test aims to determine the best model between CEM or Pooled Ordinary Least Squares (Pooled OLS) and REM. According to (Sugiyanto et al. 2022), the probability value of the Breusch–Pagan cross-section becomes

the basis for model selection. H0 accepted and CEM is used if the probability value > 0.05 , while H0 rejected and REM is used if the probability value < 0.05 .

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

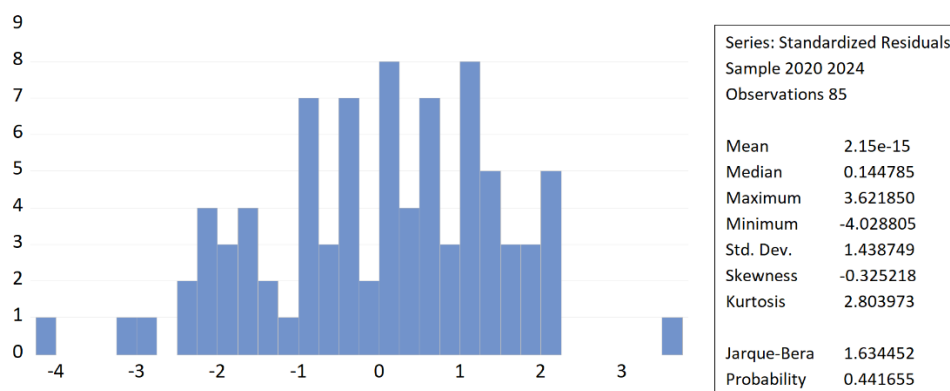
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.002149 (0.9630)	0.583880 (0.4448)	0.586029 (0.4440)
Honda	0.046353 (0.4815)	0.764121 (0.2224)	0.573091 (0.2833)
King-Wu	0.046353 (0.4815)	0.764121 (0.2224)	0.704180 (0.2407)
Standardized Honda	0.545760 (0.2926)	1.259316 (0.1040)	-2.667736 (0.9962)
Standardized King-Wu	0.545760 (0.2926)	1.259316 (0.1040)	-1.976235 (0.9759)
Gourieroux, et al.	--	--	0.586029 (0.4085)

Source: Outsourced processed data (Eviews 13), 2026

The probability value of the Breusch Pagan cross-section on the Lagrange Multiplier Test is 0.9630 (> 0.05). Thus, H0 was accepted and CEM became the model used.

Normality Test

The normality test was carried out to identify the residual distribution of the regression model. A good regression model is indicated by a normally distributed residual or close to that condition.



Source: Outsourced processed data (Eviews 13), 2026

The results of the normality test showed a probability value of 0.441655 (> 0.05). Thus, the residual research model is distributed normally so that the assumption of normality is fulfilled.

Multicollinearity Test

The relationships between independent variables in the regression model were identified through a multicollinearity test. Detection of multicollinearity problems can be carried out by analyzing the correlation values between independent variables used in the study.

Variance Inflation Factors
Date: 05/09/26 Time: 17:17
Sample: 1 85
Included observations: 85

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	3.834635	151.8373	NA
X1	0.001614	13.28704	1.518895
X2	0.000820	3.977440	1.348570
X3	0.000599	84.91513	1.929507

Source: Outsourced processed data (Eviews 13), 2026

The results of the multicollinearity test showed that all independent variables had a Variance Inflation Factor (VIF) value of < 10.00 . This shows that the regression model is free from the problem of multicollinearity and has met the criteria for testing the multicollinearity assumption.

Heteroscedasticity Test

The disparity in residual variance between observations in the regression model was identified through a heteroscedasticity test. If the residual variance gets a constant value in all observations, then the model shows a homogeneity condition. However, if residual variance indicates changes between observations, this condition is referred to as heteroscedasticity.

Heteroskedasticity Test: Glejser
Null hypothesis: Homoskedasticity

F-statistic	0.719580	Prob. F(3,81)	0.5432
Obs*R-squared	2.206537	Prob. Chi-Square(3)	0.5307
Scaled explained SS	1.929127	Prob. Chi-Square(3)	0.5872

Source: Outsourced processed data (Eviews 13), 2026

Prob value. Chi-Square in Obs R-squared heteroscedasticity test results were 0.5307 (> 0.05). This shows that the regression model is free from heteroscedasticity symptoms and according to the test assumptions.

Autocorrelation Test

The relationship between residual values in one year of observation and residual of the previous year was tested through an autocorrelation test. If the interyear residual indicates a relationship, then the regression model shows autocorrelation symptoms. In contrast, a good regression model is free of interresidual correlation. The test was carried out using the Durbin-Watson value (DW) as a detection indicator.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.701876	1.946520	-0.360580	0.7194
X1	0.010781	0.039685	0.271664	0.7866
X2	0.003294	0.028126	0.117132	0.9071
X3	0.008733	0.024343	0.358763	0.7207
RESID(-1)	-0.002985	0.110953	-0.026901	0.9786
RESID(-2)	0.256426	0.112571	2.277903	0.0254
R-squared	0.061734	Mean dependent var		7.00E-16
Adjusted R-squared	0.002350	S.D. dependent var		1.438749
S.E. of regression	1.437058	Akaike info criterion		3.631046
Sum squared resid	163.1457	Schwarz criterion		3.803469
Log likelihood	-148.3195	Hannan-Quinn criter.		3.700399
F-statistic	1.039566	Durbin-Watson stat		1.953334
Prob(F-statistic)	0.400416			

Source: Outsourced processed data (Eviews 13), 2026

The autocorrelation test indicated a Durbin-Watson value of 1.9533 categorized according to $dU < DW < 4-dU$ ($1.7210 < 1.9533 < 2.279$). Thus, the regression model is declared free from autocorrelation problems.

Panel Data Regression Results

According to (Ghozali and Ratmono 2017) The influence of free variables on bound variables was tested through linear regression analysis of panel data.

Dependent Variable: LOG_Y
Method: Panel Least Squares
Date: 05/09/26 Time: 16:39
Sample: 2020 2024
Periods included: 5
Cross-sections included: 17
Total panel (balanced) observations: 85

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.57393	1.958223	13.05977	0.0000
X1	-0.120062	0.040171	-2.988748	0.0037
X2	0.030809	0.028637	1.075824	0.2852
X3	0.003157	0.024484	0.128954	0.8977

Source: Outsourced processed data (Eviews 13), 2026

The interpretation of the coefficient refers to regression equations including:

- The constant value (α) of 25.5739 indicates that if all independent variables including Regional Revenue Diversification, Fiscal Decentralization, and Balance Fund are at a fixed condition or have a value of zero, then the amount of *Fiscal Stress* (FS) is estimated to be 25.5739.
- The Regional Revenue Diversification Coefficient (DPD) received a value of -0.1200. This value indicates that an increase in DPD worth 1 unit will be followed by a decrease in *Fiscal Stress* (FS) of 0.1200, assuming that other independent variables show no change.
- The Fiscal Decentralization (DF) variable obtained a regression coefficient of 0.0308. The findings indicate that any increase in Fiscal Decentralization of 1 unit has the potential to increase the *Fiscal Stress* (FS) value of 0.0308, with other independent variable conditions considered constant.
- A Balance Fund Coefficient (DP) of 0.0031 indicates that an increase in Balance Funds of 1 unit has the potential to cause an increase in *Fiscal Stress* (FS) of 0.0031, assuming that other variables in the study show no change.

Adjusted Determination Coefficient (R²)

The ability of independent variables to explain the variation of bound variables is measured through Adjusted R² testing. The Adjusted R² value reflects the influence of the independent variable on the dependent variable after model adjustment.

R-squared	0.154314	Mean dependent var	24.40846
Adjusted R-squared	0.122992	S.D. dependent var	1.564518
S.E. of regression	1.465151	Akaike info criterion	3.647709
Sum squared resid	173.8799	Schwarz criterion	3.762657
Log likelihood	-151.0276	Hannan-Quinn criter.	3.693944
F-statistic	4.926742	Durbin-Watson stat	1.754554
Prob(F-statistic)	0.003409		

Source: Outsourced processed data (Eviews 13), 2026

The results of the adjusted determination coefficient (R²) test indicated a value of 0.1229. The findings indicate that independent variables in the study, namely regional revenue



diversification, fiscal decentralization, and balance funds, were able to provide an explanation for the change in *Fiscal Stress* of 12.30%. Meanwhile, 87.70% of other *variations in Fiscal Stress* came from factors outside the research model.

Partial Significance Test (t-test)

(Ghozali and Ratmono 2017) It is stated that describing that the t-test is used to analyze the influence of each independent variable individually on the dependent variable assuming that other independent variables are fixed.

Dependent Variable: LOG_Y
Method: Panel Least Squares
Date: 05/09/26 Time: 16:39
Sample: 2020 2024
Periods included: 5
Cross-sections included: 17
Total panel (balanced) observations: 85

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.57393	1.958223	13.05977	0.0000
X1	-0.120062	0.040171	-2.988748	0.0037
X2	0.030809	0.028637	1.075824	0.2852
X3	0.003157	0.024484	0.128954	0.8977

Source: Outsourced processed data (Eviews 13), 2026

The results of the t-test (partial) show the influence of each independent variable on *Fiscal Stress* as follows:

1. The results of the partial test on the Regional Revenue Diversification variable showed a t-calculated value of -2.9887, then the t-table value was 1.9897. This value shows that Regional Revenue Diversification has a negative and significant influence on *Fiscal Stress* partially.
2. Testing of the Fiscal Decentralization variable showed a t-calculated value of 1.0758 and a t-table value of 1.9897. The findings are that the t-calculated value is lower than the t-table, so Fiscal Decentralization is stated to have no significant effect on *Fiscal Stress* partially.
3. Based on the results of the partial test, the Balance Fund variable obtained a t-calculation value of 0.1289 and a t-table value of 1.9897. The results of the comparison show that the Balance Fund does not have a significant effect on *Fiscal Stress* partially.

Simultaneous Test (F Test)

The F test was used to identify independent arialles simultaneously against dependent variables in the regression model. The decision is determined based on the comparison of the probability value to the level of significance.

R-squared	0.154314	Mean dependent var	24.40846
Adjusted R-squared	0.122992	S.D. dependent var	1.564518
S.E. of regression	1.465151	Akaike info criterion	3.647709
Sum squared resid	173.8799	Schwarz criterion	3.762657
Log likelihood	-151.0276	Hannan-Quinn criter.	3.693944
F-statistic	4.926742	Durbin-Watson stat	1.754554
Prob(F-statistic)	0.003409		

Source: Outsourced processed data (Eviews 13), 2026

The F-test yielded an F-calculation value of 4.92 > F-table of 2.72 with a probability value of 0.003409 < 0.05. The findings show that all independent variables simultaneously affect *Fiscal Stress*.

Discussion

The Effect of Regional Revenue Diversification on *Fiscal Stress*

Based on the results of the analysis, Regional Revenue Diversification is proven to have a negative and significant influence on *Fiscal Stress*. This conclusion was obtained through partial testing (t-test), where the variable of Regional Income Diversification produced a t-calculated value of -2.9887 with an absolute value greater than the t-table of 1.9897 and a probability of $0.0037 < 0.05$. Thus, H_0 was rejected and H_a was accepted, which shows that Regional Revenue Diversification partially has a negative and significant effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province.

The findings of this study support the theory of Peacock and Wiseman which outlines that pressure or change in economic conditions can lead to an increase in government spending activity. This phenomenon occurs because the government needs to adjust the provision of public services to the increasing needs of the community (displacement effect). In these conditions, local governments are required to obtain adequate fiscal capabilities in order to remain able to meet the government's operational financing needs and improve services to the community. One form of fiscal ability is to get diverse sources of income so that local government sources of revenue become more diverse. The more varied the sources of income, the more local governments can allocate the budget more freely to meet the needs of regional expenditures so that fiscal pressure can be minimized.

The results of this study indicate a difference with the research (Putri et al. 2024), stating that regional income diversification has not had a significant effect on *Fiscal Stress*. The difference in findings can occur due to variations in the year of observation, the number of observations used, and the characteristics of the research object analyzed.

The Effect of Fiscal Decentralization on *Fiscal Stress*

Based on the results of the analysis, Fiscal Decentralization does not have a significant effect on *Fiscal Stress*. The results of the partial test (t-test) showed a t-calculated value of $1.0758 < t\text{-table of } 1.9897$ and a probability of $0.2852 > 0.05$. Thus, H_0 was accepted and H_a was rejected, which means that Fiscal Decentralization has not had a significant effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province.

These findings show that changes in the level of fiscal decentralization have not been able to affect the level of *Fiscal Stress* of local governments. Fiscal decentralization in this study is measured through the comparison of PAD with total regional revenue as an indicator of regional ability to finance needs through internal sources. However, increasing PAD contribution has not been a major factor in reducing regional fiscal pressure.

Referring to Peacock and Wiseman's theory, local governments need to have adequate fiscal capacity to meet the increase in spending needs due to changes in economic conditions and public service demands. Although fiscal decentralization provides broader authority in regional revenue management, the results of this study show that this authority has not been fully able to increase fiscal capacity in reducing *fiscal stress*.

The results of this study are different from the findings (Nurhaliza et al. 2025) and (Putri, Hartati, and Aryani 2023) which shows the negative and significant influence of fiscal decentralization on *Fiscal Stress*. The characteristics of the object as well as the different conditions of the area are likely to influence the results of the study.

The Effect of Balance Funds on *Fiscal Stress*

Based on the results of the analysis, the Balance Fund does not have a significant effect on *Fiscal Stress*. The results of the partial test (t-test) in Table 4.12 show a t-calculated value of $0.1289 < t\text{-table of } 1.9897$ and a probability of $0.8977 > 0.05$. Thus, H_0 is accepted and H_a is rejected, then the Balance Fund partially does not have a significant effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province.

These findings show that changes in the amount of balance funds received by local governments have not been the main factor affecting the level of *Fiscal Stress*. The balance fund is a transfer from the central government sourced from the state budget to support the



implementation of fiscal decentralization. The funds include DBH, DAU, and DAK which are used to finance the administration of government and regional development.

Based on Peacock and Wiseman's theory, local governments' dependence on external sources of financing can increase fiscal vulnerability due to changes in central government policies that affect transfer funds. However, the results of the study show that the Balance Fund does not have a significant effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province. Thus, the theory has not fully explained the empirical condition of this study, because the size of the Balance Fund has not been proven to affect *Fiscal Stress* during the study period.

This finding is different from (Citra et al. 2024) that found negative and significant influences while (Suryani and Windijarto 2023) found that the Balance Fund had a positive and significant effect on *Fiscal Stress*. The different results are suspected to be influenced by the variety of research objects and the high uniformity of the proportion of Balance Funds between regions in South Sumatra Province, so that these variables do not show a significant influence.

The Effect of Regional Revenue Diversification, Fiscal Decentralization, and Balance Funds on *Fiscal Stress*

The results of the simultaneous test (F test) showed an F-calculation value of 4.92 with a probability of $0.003409 < 0.05$ and $F\text{-calculation} > F\text{-table}$ ($4.92 > 2.72$). Thus, H_0 is rejected and H_a is accepted, then Regional Revenue Diversification, Fiscal Decentralization, and Balance Funds simultaneously have a significant effect on *Fiscal Stress* in Regencies/Cities in South Sumatra Province for the 2020–2024 period.

These results show that *Fiscal Stress* is not only influenced by one financial component, but by the interconnectedness of several factors simultaneously. Although only partially Regional Revenue Diversification had a negative and significant effect, while Fiscal Decentralization and Balance Funds had no significant effect, simultaneously the three variables were able to explain the variation in *Fiscal Stress* more comprehensively.

The findings of the research can be explained based on the theory of Peacock and Wiseman which states that the increase in government needs due to changes in economic conditions and the increasing demands of public services must be balanced with the government's ability to finance these expenditures. In the context of this study, Regional Revenue Diversification, Fiscal Decentralization, and Balance Fund are factors related to the financial capabilities of local governments. Therefore, the simultaneous influence of these three variables on *Fiscal Stress* indicates that fiscal pressure conditions are influenced by various aspects of regional financial management, not just by one factor. The Adjusted R Square value obtained at 0.1229 shows that independent variables, namely Regional Revenue Diversification, Fiscal Decentralization, and Balance Fund, contributed to delineating the change in *Fiscal Stress* of 12.30%. Meanwhile, 87.70% of the variation in *Fiscal Stress* was influenced by external factors outside the research model.

These findings are consistent with the results of the study (Icih et al. 2021) and (Nurhaliza et al. 2025) regarding the significant influence of regional fiscal variables simultaneously on *Fiscal Stress* local government.

E. CONCLUSION AND SUGGESTIONS

Thus, it can be concluded that Regional Revenue Diversification has a negative and significant influence on *Fiscal Stress*, while Fiscal Decentralization and Balance Funds do not have a significant effect. Simultaneously, these three variables have been proven to have a significant effect on *Fiscal Stress*

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