Nexus between capital expenditure and economic growth in Indonesia in the Covid-19 pandemic

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ABSTRACT

This study aimed to determine the relationship between capital expenditure and the Covid-19 pandemic on economic growth in Indonesia. This study used a sample of all provinces in Indonesia, consisting of 34 provinces in 2019-2021. It analysed the data by using an Analysist Covariate or ANCOVA. The results showed that capital expenditure had no effect on economic growth while the Covid-19 pandemic had a positive effect on economic growth. The Covid-19 pandemic in this study was initially formulated that the Covid-19 pandemic had a negative impact, but the results of the study said otherwise. The positive influence of the Covid-19 pandemic is due to the digitalization of the economy. Capital expenditure issued by the government during the pandemic has not been able to increase economic growth. Therefore, the government must consider the allo-cation of capital expenditures in the APBD and supervise the implementation of the APBD, especially during the Covid-19 pandemic.

ABSTRAK

Tujuan penelitian ini adalah untuk mengetahui hubungan belanja modal dan Pandemi Covid-19 terhadap pertumbuhan ekonomi di Indonesia. Penelitian ini menggunakan sampel seluruh provinsi yang ada di Indonesia yang berjumlah 34 provinsi pada tahun 2019-2021. Metode analisis statistik yang digunakan dalam penelitian ini adalah Analysist Covariate atau ANCOVA. Analisis ini digunakan untuk menguji beda rata-rata data kontinyu dan berdistribusi normal dengan sampel independen. Hasil penelitian menunjukkan bahwa belanja modal tidak berpengaruh terhadap pertumbuhan ekonomi sedangkan Pandemi Covid-19 berpengaruh positif terhadap pertumbuhan ekonomi. Pandemi Covid-19 pada penelitian ini awalnya dirumuskan bahwa Pandemi Covid-19 berpengaruh negatif terhadap pertumbuhan ekonomi, namun hasil penelitian mengatakan sebaliknya. Pengaruh positif Pandemi Covid-19 terhadap pertumbuhan ekonomi ini dikarenakan adanya digitalisasi ekonomi yang berkembang pesat karena pandemi. Dorongan belanja modal yang dikeluarkan pemerintah pada saat pandemi belum mampu meningkatkan pertumbuhan ekonomi. Oleh karena itu, pemerintah harus mempertimbangkan alokasi belanja modal dalam APBD dan melakukan pengawasan terhadap pelaksanaan APBD tersebut terutama pada saat Pandemi Covid-19.

Keyword:
Nexus, Capital Expenditure, Economic Growth, Covid-19 Pandemic.

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1. INTRODUCTION

Economic growth has changed irrationally in any regionoal economy towards better economic conditions within a certain period. There are are some factors influencing economic growth such as human resources, natural resources, capital, social culture, and technological developments. Yet, the main factors driving the economy are household consumption, the higher the household consumption, and the better the economic movement.

Economic growth in Indonesia in 2019 grew by 5.02 percent, while in 2020 it weakened by 2.97% and even dropped into -5.32% in the second quarter. This economic contraction was triggered by the external factor of Covid-19. This Coronavirus Disease 2019 pandemic or commonly abbreviated as Covid-19, has rapidly spread across countries and even across continents. According to WHO, as of April 2022, there were 500 million confirmed cases of COVID-19 worldwide, while the cumulative number of patients who died reached 6 million. Because of the pandemic, the implementation of large-scale social restrictions (PSBB) in 2020 and restrictions on community activities (PPKM) in 2021 had to be carried out to avoid the greater spread of the virus. This causes many industries to stop their business activities so that most of the economic activities in the community break down.

The researchers even predict that there will be an economic recession in 2020 in various countries. In Indonesia, especially, will undergo a mild recession of -3% -0% and will last around two quarters. Therefore, it is necessary to restore the national economy by cooperating with all components. The government has allocated a state budget of IDR 695.2 trilions to carry out national economic recovery. In the second quarter of 2021, Indonesia's economic growth grew by 7.07%. This indicates that the government's economic recovery strategy is bearing fruit. Efforts made by the government succeeded in encouraging household consumption and investment. This household consumption for the government will increase the allocation of spending capital. The government's push for spending capital is able to make the Indonesian economy, which at the beginning of the Covid-19 pandemic experienced a contraction, is now recovering.

One of the government's policies in maintaining economic stability in Indonesia is by increasing spending. One type of spending in The State Revenue and Expenditure Budget (APBN) is direct spending which can be for public needs. The use of the APBN is a guideline for the economy aimed for increasing the stability of the country's economy, increasing and building economic growth, and increasing equitable distribution of income in Indonesia. In 2020, the State Budget has increased to Rp2,613.80 trillion from the initial estimate of Rp2,540.42 trillion. This amount is allocated for the Central Government Expenditure Budget (ABPP) worth Rp. 1,851.10 trillion (Rp. 255.11 trillion is in addition to handling the COVID-19 pandemic) and the Transfer Budget to Regions and Village Funds (TKDD) which is estimated at Rp762.72 trilion.

There is a relationship between capital expenditures and economic growth. For example, Abbasov et al. (2021) revealed the relationship between capital expenditures and economic growth during the Covid-19 pandemic in Azerbaijan, this study shows that capital expenditures and expenditures for the current year have a positive influence on economic growth that inprojected through non-oil real Gross Domestic Product in Azerbaijan. Another study examining the effect of Covid-19 on economic growth was carried out by Junaedi & Salistia (2020) that have an inverse result with the results of the study conducted by Abbasov et al. (2021). Junaedi & Salistia (2020) and Oeliestina (2021) state that the Covid-19 pandemic has an impact on economic growth.

This study analyzes the relationship between capital expenditures and economic growth in the Covid-19 pandemic. The research gap that distinguishes this research from previous research is in the research object, the scope of the area, and the statistical tools used. In previous studies, the researchers did not focus on examining capital expenditures and economic growth. Instead, they only focused on examining one sub-section of capital expenditures, examining certain regions in Indonesia such as cities, regencies, and provinces. They did not consider Covid-19 in the study, while this study focuses on examining capital expenditure and economic growth in Indonesia, examining capital expenditure thoroughly, examining all provinces in Indonesia so that the scope is wider and this study can be more inclusive, can be generalized, and the finding can be considered by Indonesian government in making decisions.

This study used ANCOVA, a statistical analysis tool to test the mean difference of continuous and normally distributed data with independent samples. The researchers used capital expenditure as a covariate variable, therefore ANCOVA is used to eliminate or reduce noise in data analysis caused by variables other than the variables studied so that the effects of the variables studied can be seen musch clearer lear. Most of them used Path Analysis, Granger Causality Analysis, and regression test. This study tries to use a new analytical tool, which has not yet been used by previous research. Based on the background that has been described, the author decided to conduct this study.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Jensen & Meckling first proposed agency theory in 1976. This theory describes the relationship between the principal and the agent, where the agent is the party trusted by the principal to manage their organization. In the public sector, the agent is the government and the principal is the society. People who are supposed to be the principals need accountability from the government when managing their organizations. Information asymmetry between the agent and the principal is the main factor why they need accountability in the relationship between the two parties. The realization of the APBN and APBD is a part of government responsibility as an agent in managing finances, which theypublished transparently to the society. Therefore, the public can judge that their organization, in this case, the state is managed well or not, especially during the Covid-19 pandemic when the government issued policies related to the budget for handling the pandemic.

Fiscal Decentralization

According to UU No. 23 year 2014, decentralization is the delegation of government affairs from the central government to autonomous regional governments based on the principle of autonomy. Decentralization is for creating regional independence, which is expected to provide better and more targeted services to the community because the regional government is certainly more aware of the condition of the region than the central government.

Fiscal decentralization in the reform era began on January 1, 2001 after the ratification of UU No. 22 year 1999 concerning Regional Government and UU No. 25 year 1999 concerning Fiscal Balance between Central and Regional Governments (PKPD). The success of a region in improving people's welfare can be influenced by the spending policies of each local government. Local government spending policies can be reflected in the size of the expenditure allocation for each function and type of expenditure (Luthfia & Siregar, 2016).

The decentralization of spending has resulted in local governments having the authority to allocate expenditures according to the policies of each region. Regional finances they can use as a measure of how far regions can take care of their own households. If the finances of a region are bad, the regional government in providing services and development cannot run effectively and efficiently. It is expected the existence of fiscal decentralization can reduce inequality between regions, increase the role of the community in regional development, increase accountability and transparency of regional governments, and fulfill regional aspirations regarding control over regional financial resources.

Regional Revenue and Expenditure Budget

Based on UU No. 17 year 2003, which regulates State Finances, the Regional Revenue and Expenditure Budget (APBD), is a financial plan that theyprepared annually by the regional government and approved by the DPRD. The budget consists of plans for revenues, expenditures, transfers, and local government financing which are arranged according to certain classifications systematically for one period with units of rupiah (Siregar, 2015).

Regional income consists of Regional Original Revenue (PAD), balancing funds, and other legitimate regional revenues. Regional expenditures are all expenditures, which derives from the regional general treasury account, which reduce the excess budget balance in the period of the relevant fiscal year. Regional spending is divided into two, namely indirect spending and direct spending. Expenditures allocated for things that nothing to do with diirectly related to the implementation of programs and activities are called indirect expenditures. Meanwhile, the budgeted expenditures for matters directly related to the implementation of programs and activities are called direct expenditures, such as personnel expenditures, goods and services expenditures, and capital expenditures (Siregar, 2015).

Capital Expenditure

Local governments have two types of regional expenditures in the APBD, namely indirect expenditures and direct expenditures. Capital expenditure is one component of direct expenditure that they can utilze by the community directly and has long-term benefits. The need for public services in capital expenditure they use to increase assets or investment in order to improve public facilities and infrastructure. Because the purpose of the capital expenditure is to improve the welfare of the community, the local government needs to strive increasing development spending, including capital expenditure (Badrudin 2017). Government spending theory describes aggregate spending can be increased through government spending on development activities so that it can trigger an increase in the country's economic activities. When associated with capital expenditures, the higher capital expenditures, the greater the impact on the regional economy.

Economic Growth
Economic growth is an increase in income or ability caused by an increase in the production of goods and services. Economic growth is important for a country because economic growth is closely related to the level of welfare of the people of that country. Economic growth can be measured using GDP (Gross Domestic Product) for the national scope and GRDP (Gross Regional Domestic Product) for the regional scope. GDP or GRDP itself is a value that arises due to the production of goods and services in an area in a certain period.

The theory of economic growth is divided into four classifications, namely Classical Theory, Neoclassical Theory, Neokeynes Theory, WW Rostow Theory, and Karl Bucher Theory. In this study, the relevant theory of economic growth is Economic growth theory according to Neokeynes theory popularized by Roy F. Harrod and Evsey D. Domar concluded that in economic growth the most important factor is capital or investment. Investment results in the availability of capital to increase production. If there is an increase in production, there will also be an increase in economic growth. Capital formation is very important. Proper capital formation will increase production thereby increasing economic growth.

Covid-19 Pandemic
A pandemic is a disaster that spreads throughout the world and people cannot control, including in Indonesia. In Indonesia, the Covid-19 pandemic has paralyzed various educational, social and economic activities. The community, which has been affected by COVID-19, is unable to carry out economic activities as usual. This causes economic growth in Indonesia to decline due to the inability of economic activity in both the micro and macro economic sectors. In order to maintain the balance of life, the government is disbursing funds to the community as an effort to overcome Covid-19. The funds come from government revenues, both taxes and regional income. During the pandemic, income will experience a decline. With these funds, it is expected to increase the government's economic rate by providing subsidies to the community.

Hypothesis
Capital expenditures are budgeted by the government in the form of land, equipment and machinery, buildings and structures; roads, irrigation, and other capital expenditures are purposedly for the community in order to develop the potential exist to obtain maximum results. The government and the community work together to manage this capital expenditure and use it to create opportunities for income they get. This result can be in the form of an increase in the welfare and prosperity of the community, which people can measure by the income received. People's income, which is increasing from year to year, shows the existence of economic growth.

There are some evidence related to economic growth. For example, Utami & Indrajaya (2019), in their research, revealed that in Bali Province, capital expenditure has a significant positive effect on economic growth. If capital expenditure increases, economic growth will also increase. One of the triggers for economic growth is the existence of adequate infrastructure because infrastructure is the basic capital in carrying out economic activities. Therefore, capital expenditure is required to provide this infrastructure. If the infrastructure is adequate, it will increase economic activity, which can indirectly increase economic growth.

Again. Waryanto (2017), Nurmainah (2013), and Saraswati (2018), also studied the economic growth. They found that capital expenditure has a significant positive relationship with economic growth. This accurs because the government issues and manages large capital expenditures to trigger economic growth. The capital expenditure is for the provision of regional fixed assets in the form of public facilities that have a useful life of more than one year. People can expect it to later for a capital to support the implementation of economic activities, as well as to ensure equitable regional development to produce an even rate of economic growth. Based on the description above, the following hypothesis can be formulated:

H1: Capital expenditure has a positive effect on economic growth in Indonesia

The Covid-19 pandemic has now become a common enemy for all countries in the world, including Indonesia. The government issued a policy of social restrictions or commonly referred to social distancing to suppress the spread of the virus. These policies certainly affect all aspects of life in society. All activities that used to be done in public places such as work, school, eating in restaurants, even worship have to be done at home for an indefinite time.

Also a study by Junaedi & Salistia (2020) found that the Covid-19 pandemic affected economic growth and Oeliestina (2021) mentioned that the Covid-19 pandemic has an impact on the Indonesian economy and the economy of 34 provinces, social restrictions also have a real impact on the community's economy, especially in the public transportation and trade sectors. Social restrictions that require people to stay at home and reduce mobility have an impact on the absence of public transportation passengers, causing economic activities in this sector to not run. On the trade side, traders find it difficult to get supplies of merchandise inventory and it is difficult to sell them. The pandemic also has an impact on other sectors such as UMKM, tourism, industry and other economic activities.

The social restriction policy has an impact on the industrial sector, which must regulate the number of employees who come to work and work from home. This resulted in the company's productivity and profit decreased. The company can take some steps to reduce the operational costs of human resources by laying off workers, or reducing the number of employees' salaries. Employees affected by this layoff increase the number of unemployed in Indonesia because they have no income.

From the impact of the pandemic in some of the sectors above, the income received by the community will decrease. The amount of income in some of these sectors will affect the gross regional income (GDP) which reflects the economic growth in a region. As found by Junaedi & Salistia (2020), the pandemic has an impact on economic growth in both developed, developing and even poor countries. From the description above, the following hypothesis can be formulated:

H2: The Covid-19 pandemic has a negative impact on economic growth in Indonesia

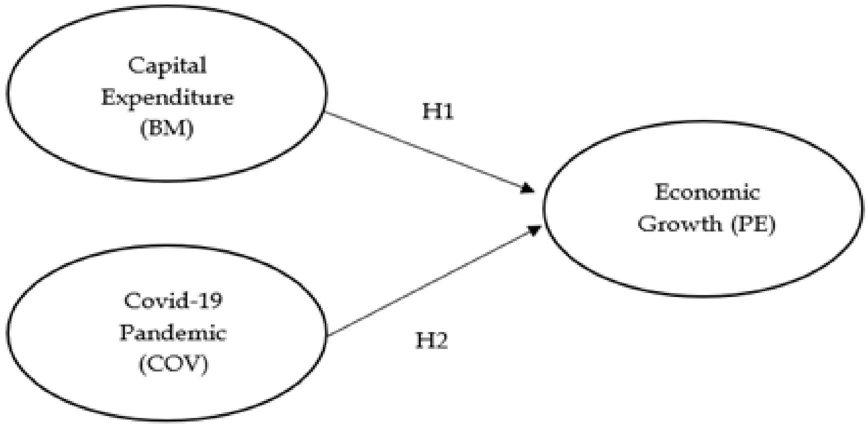

Figure 1
Structural Model

Based on the explanations of the theories and hypotheses described above, a conceptual framework can be drawn as shown in Figure 1.

3. RESEARCH METHODS

The researchers used purposive sampling technique in taking the sample. The data were collected from secondary data by accessing data from the Central Beuro of Statistics (BPS) which has been published on the BPS website bps.go.id. While the scope of the area studied in this research is 34 provinces in Indonesia. Based on the sampling criteria above, the overall sample used was 102 samples. However, after selecting the sample, we conducted 2 samples of data outliers because the sample caused the research data to be abnormal. The two samples are West Papua Province in 2019 and North Maluku Province in 2021. Therefore, the sample used in this study is 100 samples.

This study examined capital expenditures and economic growth in Indonesia during the Covid-19 pandemic. Economic growth in this study is measured using the constant price GRDP rate in percent, which can be calculated by the constant price GRDP for the current year minus the previous year's constant price GRDP divided by the previous year's constant price GRDP. Covid-19 pandemic is measured by three categories, before the pandemic occurred in 2019 is given number 0, level 1 pandemic occurred in 2020 is given number 1, and level 2 pandemic occurred in 2021 is given number 2. Meanwhile, capital expenditure the researchers measured by using data capital expenditure from APBD components of all provinces in Indonesia in rupiah units.

This study uses the ANCOVA statistical analysis tool, analysist statistical descriptive, and data normality analysis. This study attempts to to test the hypothesis of the effect of differences in the Covid-19 pandemic and capital expenditure on economic growth. Covid-19 acts as a factor with categorical data types, capital expenditure as a covariate with quantitative data types, then economic growth as a response with quantitative data types.

Table 1
Descriptive Statistical Analysis Result

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Expenditure (BM)*	100	940.63	25,599.52	5,529.86	4,481.03
Covid-19 (CoV) Pandemic	100	1.00	3.00	2.00	0.82
Economic Growth (PE) %	100	-9.33	15,11	2.58	0.73
Valid N (Listwise)	100				

Source: Data Processed
Note: *) in billion Rupiah
The table above contains a summary of the description of the research variables. The measurements of the various research variables are: BM (Capital Expenditure) = Capital Expenditure, COV (Covid-19) = 1 indicating before the Covid-19 Pandemic in 2019, 2 indicating the Covid-19 Pandemic level 1 in 2020, 3 indicating the Covid-19 Pandemic level 3 in 2021, PE (Economic Growth) = GDP Rate.

4. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Based on the test results in Table 1, it can be seen the average, median, maximum, minimum, standard deviation, number, and number of observations used. It shows that the number of research observations is 100 samples during 2019-2021. The highest value of capital expenditure shows data of Rp25,599.52 billion which was realized from the APBD of West Kalimantan Province in 2019. This value is 362.93% above average that was realized before the Covid-19 Pandemic. While the lowest value shows data of Rp. 940.63 billion, 82.99% below the average realized from the APBD of the Special Region of Yogyakarta in 2020 where this realization occurred during the Covid-19 pandemic level 1. Then for the mean in this capital expenditure variable is Rp5,529.86 which means the average capital expenditure in the data is Rp5,529.86 billion. Meanwhile, the standard deviation of the overall capital expenditure value is 4,481.03 lower than the average value, which means that the data is evenly distributed.

The highest value of economic growth shows data of 15.11% realized from the Papua Province APBD in 2021. This value is 12.53% above average, which was realized during the Covid-19 Pandemic level 2. The lowest value was -9.33%, 6.75% below the average realized from the Bali Provincial Budget in 2020 where the realization occurred during the Covid-19 Pandemic level 1. Then for mean on this economic growth variable is 2.58% which means the average economic growth of the data is 2.58%. Meanwhile, the standard deviation of the overall value of economic growth is 3.62%.

Data Normality Analysis

Normality test is a test used to determine whether the data is normally distributed or not. If the probability value is > 0.05 then the data can be normally distributed. The sample data, which initially amounted to 102, could not meet the data normality test so that the data had to be outliered by 2 samples and resulted 100 final samples. Based on the results of the data normality test that has been carried out, it can be seen that the probability is 0.139>0.05 so it can be concluded that the data is normally distributed.

Test Analysis ANCOVA

The ANCOVA equation above can be explained as follow: (1) the value of μ is 3.19. This means that if the Covid-19 Pandemic (COV) and capital expenditure (BM) are 0 then economic growth (PE) is 3.19. (2) The coefficient of capital expenditure (BM) is 0.19. This means that capital expenditure has a positive effect on economic growth. If capital expenditure increases by one unit and the Covid-19 pandemic variable appears to be constant, it will increase economic growth by 0.19. (3) The Covid-19 Pandemic variable has a positive coefficient of 763.60. This means that the Covid-19 pandemic has a positive influence on economic growth. If the Covid-19 pandemic increases by one unit and the capital expenditure variable is considered constant, it will increase economic growth by 763.60.

Hypothesis Testing Results

Based on the results of the hypothesis testing, it indicates that H1 was not supported. It is proved by the significance value of 0.85 which is greater than 0.05. It means that capital expenditure has no effect on economic growth. Then on the Covid-19 Pandemic variable, it shows that the significance value is 0.00, which is less than 0.05, this means that the Covid-19 pandemic has a positive effect on economic growth. This positive influence has a support by the Covid-19 Pandemic variable coefficient, which has a positive direction because it shows a positive number of 763.60. This is in contrast to H2, which stated that the Covid-19 pandemic had a negative effect on economic growth. Therefore, it can be concluded that H2 is also not supported. Meanwhile, from the table above, it is known that the R Square is 0.61. It means that the ability of capital expenditures and the Covid-19 pandemic to affect economic growth is only 61%.

Table 2
ANCOVA Test Results

	Type III Sum of Squares
Corrected Model	790.35
Intercept	3.19
LnBM	0.19
COV	763.60
Error	509.69
Total	1,968.05
Corrected Total	1,300.04

Source: Data Processed

PEij= 3.19 + 0.19LnBMij + 763.60COVi + 509.69

Table 3
Hypothesis Testing Results

	Type III of Sum Squares	Df	F	R^2	Sig.	Prediction	Finding	Research Hypothesis
LnBM	0.19	1.00	0.04	0.61	0.85	Positive	Positive	Not Supported
COV	763.60	2.00	71.91		0.00	Negative	Positive	Not Supported

Source: Data Processed

The table above contains a summary of the description of the research variables. The measurements of the various research variables are: BM (Capital Expenditure) = Capital Expenditure, COV (Covid-19) = 1 indicating before the Covid-19 Pandemic in 2019, 2 indicating the Covid-19 Pandemic level 1 in 2020, 3 indicating the Covid-19 Pandemic level 3 in 2021, PE (Economic Growth) = GDP Rate.

Capital expenditure has no effect on economic growth in Indonesia Capital expenditure is a part of direct expenditure in the APBD, which is for supporting the people's activities in terms of improving public services in a region. The budgeting is carried out based on fiscal decentralization, which is useful for increasing economic independence without relying on the central government. Through economic independence, it is expected to be able to increase regional economic development so that it can improve the welfare of the community. This theory is in accordance with the findings of research conducted by Utami & Indrajaya (2019), Waryanto (2017), and Nurmainah (2013), which states that capital expenditure has a positive influence on economic growth.

It is in line with the aforementioned research, Saraswati (2018) also revealed that partially capital expenditures had a significant positive effect on regional economic growth in the Regency/City of North Sumatra. Another research is in line with the hypothesis of this research. It is the research by Abbasov et al. (2021) which reveals the relationship between capital expenditures and economic growth during the Covid-19 pandemic in Azerbaijan. It shows that capital expenditures and expenditures for the current year have a positive influence on the economic growth that projected through non-oil real Gross Domestic Product in Azerbaijan.

In this study, the results of the H1 test indicate that capital expenditure has no effect on economic growth. This means that fiscal decentralization carried out by local governments, one of which is by budgeting regional expenditures in the APBD, can be said to be unoptimal. The increase in capital expenditure has not driven public consumption and has not boosted economic growth. This finding is in line with the results of research conducted by Apriana & Suryanto (2010) which states that capital expenditure, local revenue, and regional adequacy do not significantly affect economic growth. The allocation of the capital expenditure budget that they did not target well and the proportion of the budget that is not right, are the cause of local governments being less productive in distributing capital expenditure funds.

The research above has a support by Fajri (2017), in his research which states that capital expenditure has no significant effect on economic growth on Sumatra Island. The same thing was also found by Mokoena et al. (2020) who conducted research in South Africa and concluded that there is an insignificant causal relationship both in terms of government spending and economic growth in South Africa. Mokoena et al. (2020) mentions that the government's budget has not been able to give a significant impact due to the lack of supervision over budget making and implementation. Supervision needs to be carried out to ensure that government spending is actually used to meet the needs of the public. Then public spending which has no effect on economic growth is also found in the research Bağdigen & Çetintaş (2004) which states that public spending and economic growth in Turkey do not have a long-term relationship.

The Covid-19 Pandemic has a Positive Impact on Economic Growth in Indonesia

Besides from capital spending, the Covid-19 pandemic has the potential to have an impact on economic growth. The government issued a policy of social restrictions or commonly referred as social distancing to suppress the spread of the virus. Social distancing has resulted in hampered economic activities in the community so that the economy in Indonesia has decreased. Social restrictions that constrain people to stay at home and reduce mobility have an impact on the absence of public transportation passengers; causing economic activities in this sector do not run. On the trade side, it is also affected by social restrictions, traders find it difficult to get supplies of merchandise supplies and it is also difficult to sell them. The pandemic also has an impact on other sectors such as UMKM, tourism, industry and other economic activities.

However, in this study, it found that the Covid-19 pandemic actually had a positive effect on economic growth in Indonesia. This shows that with the existing of the Covid-19, economic growth in Indonesia has increased. The Covid-19 pandemic has shown a positive impact despite the fact that Covid-19 has also reduced economic growth to -5.32%, but only at the beginning of the pandemic. After the second quarter of 2020, economic growth in Indonesia has gradually improved due to the digitalization of all aspects, including economic activities.

Social restrictions due to the pandemic have hampered people's economic activities, but with the development of technology, activities that they cannot do out outside the house can be surmounted by digitalization. All activities including economic activities can be carried out online. This economic digitization is able to increase public consumption and cause the Indonesian economy to improve even though it is still in the pandemic period. The digital economy has the ability to adapt quickly to changes so that during a pandemic, the digital economy actually develops rapidly and has a significant impact on economic growth. During the Covid-19 pandemic, the information and communication sector consistently made a positive contribution to Gross Domestic Product (Nizar & Sholeh, 2021).

The form of the digital economy is e-commerce as an online buying and selling medium that can increase public consumption. It also increases company's revenue. This increase in company's revenues can contribute to state revenues and can increase economic growth (Sudaryono et al., 2020). In addition to e-commerce, Financial Technology (Fintech) also has a positive impact on economic growth during the Covid-19 pandemic. Fintech has contributed helping to fulfill public financial transactions that cannot be handled by formal financial institutions, making it easier for people to carry out economic activities during the pandemic (Marginingsih, 2021). The emersion of many startup companies is also purposively to increase economic growth. Most of the startup companies have high innovation because they are in the period of starting a business and are still looking for the market. Many startup companies also keep up with technological developments so that not all of their activities are in relation to the space and time. Employees can work from home and do their jobs anytime and everywhere. Startup companies also provide media for UMKM that used to do business conventionally, now they are dependent on e-commerce startup companies (Karina et al., 2021)

The findings of this study explain further direction of the influence of Covid-19 on economic growth which was found Junaedi & Salistia (2020) and Oliestiena (2021) which only mentions that Covid-19 affects economic growth in Indonesia. In this study, hypothesis H2 that states that Covid-19 has a negative effect on economic growth in Indonesia has no support. The Covid-19 pandemic has a positive effect on economic growth, apparently not driven by capital expenditures issued by the government. This means that capital expenditure does not have a close relationship and does not have a significant effect on economic growth in Indonesia, as evidenced by the results of the correlation test of capital expenditure on economic growth, which shows the number 0.14, smaller than 0.5, which means the correlation between capital expenditure and economic growth is low.

Based on agency theory, agents tend to act opportunistically when managing organizations so that accountability they need in the form of financial reports, which contain the performance of agents. This information allows the principal to know the decisions and policies taken by the agent so that information asymmetry can decrease. The results of the analysis show that capital expenditure has no effect on economic growth. In this case, the government as an agent must report transparently to the community regarding capital expenditures that have large allocations in the APBD in order to increase public trust in the government, especially during the Covid-19 pandemic.

This study proves that capital expenditure does not have a positive effect on economic growth. The capital expenditure the company should report to the public so that the public knows that the large allocation of capital expenditure they manage well by the government even though it has not been able to increase economic growth. Then the results of the study showed that Covid-19 had a positive effect on economic growth, but was not affected by capital expenditures. However, other factors may have effect on it such as economic digitization. In this case, the government has not succeeded in maintaining stable economic growth through capital expenditures. Transparent APBD disclosures can strengthen public trust in the government in managing their organizations even though they have not produced optimal results.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the results of the tests and discussions, this study has some conlcusions such as 1) Capital expenditure has no effect on economic growth. This shows that capital expenditures issued by the government cannot increase economic growth. The local government as the budget maker in the APBD has not succeeded in allocating capital expenditure properly so that it has not been able to encourage increased economic growth in Indonesia. 2) The Covid-19 pandemic does not have a negative effect on economic growth, this shows that the presence of Covid-19 does not make economic growth decline or in other words it increases economic growth.

Using capital expenditure and Covid-19 variables, the researchers did not comprehensively regard the things that encourage economic growth. In addition, the R^2 of this research is only 0.61, this shows the ability of capital expenditures and the Covid-19 pandemic to affect economic growth is only 61%. For this reason, further researchers should add several variables that can be for determining the economic growth factors such as population, tax revenues, inflation rates, and the human development index.

A high population can increase people's consumption so that it can increase aggregate demand. This can move the wheels of the economy so that it can increase economic growth. The tax revenue received by the government can be used to fund state expenditures so that the higher the tax revenue, the higher the economic growth. The low inflation rate causes the price of goods to fall so that people's purchasing power increases and eventually can increase economic growth. The human development index shows the quality of people's life, if the quality of life is good, the higher the opportunity for people to be absorbed in the labor market and earn a decent income. The more people who earn a decent income, the higher consumption occured to increase economic growth.

It shows that capital expenditure has no effect on economic growth and capital expenditure does not have a significant role in encouraging economic growth in the Covid-19 era. Therefore, local governments should be wiser in considering the allocation of capital expenditures in the APBD. By doing so, the policies related to capital expenditures can contribute more to economic growth in Indonesia, especially during the Covid-19 Pandemic, as well as disasters and other conditions that can threaten the stability of economic growth in Indonesia.

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