ABSTRACT

This study analyzes the effects of economic factors and spatial interdependence on economic growth in regencies/cities in Java during the 2020 - 2024 period. The study uses panel data consisting of 565 observations from 113 regencies/cities, with GRDP at Constant Prices as the dependent variable, IKFD, PMTB, TPAK, and RLS as independent variables, and a COVID-19 dummy variable as a control variable. The analysis employs panel data regression and spatial econometric methods through Global Moran's I, Local Indicators of Spatial Association (LISA), the Lagrange Multiplier Test, and the Spatial Durbin Model (SDM). The Fixed Effect Model (FEM) is selected as the best panel data model, with an R-squared value of 0.9179.

The estimation results of the Spatial Durbin Model with Fixed Effects (SDM-FE) show a Within Pseudo - R^2 value of 0.9516 and a spatial dependence coefficient (ρ) of 0.54848, which is significant at the 1 percent level, indicating positive spatial interdependence of GRDP across regions. The effect decomposition results show that PMTB and RLS have positive and significant direct, indirect (spillover), and total effects, with total effects of 0.65970 and 0.09433, respectively. In contrast, IKFD has negative and significant direct, indirect, and total effects, with a total effect of -0.01429, while TPAK shows no significant effect, with a total effect of 0.00022. These findings indicate that economic growth in regencies/cities in Java Island is not only associated with internal regional characteristics but also with economic linkages across regions.

Keywords: *Economic Growth, Regional Fiscal Capacity, Physical Capital, Human Capital, Spatial Dependence, Spatial Durbin Model.*