The Influence of Tourism Activities, Local Spending, and Macroeconomic Indicators on Provincial Economic Growth in Indonesia

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ABSTRACT

This study is driven by the critical role of the tourism sector, local fiscal policies, and macroeconomic indicators in stimulating local economic growth in Indonesia, which continues to exhibit significant disparities across provinces. The purpose of this study is to analyze the influence of the number of domestic and international tourists, tourist spending, occupancy rates of starred and non-starred hotels, local government spending, inflation, exchange rates, and infrastructure on provincial economic growth in Indonesia for the period 2018–2023. The method used is a quantitative approach with an explanatory design using panel data from 11 provinces, which were analyzed using a Random Effects Model. The results show that only foreign tourist spending, occupancy rates of starred hotels, inflation, exchange rate, and infrastructure have a significant influence on economic growth, while other variables are insignificant. This finding indicates that tourism quality, macroeconomic stability, and infrastructure support are more determinant than tourist quantity or local government spending. The implications of this study emphasize the importance of policies that focus on increasing high-value tourism, public spending efficiency, and strengthening infrastructure and economic stability. In conclusion, local economic growth in Indonesia is more influenced by the quality and efficiency of the economy than simply increasing the volume of tourism activity.

Keywords: *Infrastructure, Local Spending, Macroeconomic Indicators, Tourism.*

INTRODUCTION

Economic growth is a fundamental indicator in measuring the welfare and development progress of a country. Indonesia, with its rich natural resources and cultural diversity, continues to strive to integrate various dimensions of sustainable development to accelerate inclusive economic growth. Adam Smith's classical theory of growth emphasizes the importance of capital accumulation, division of labor, and productivity as the primary determinants of economic growth, while Solow's neoclassical perspective underscores the crucial role of technological advancement, physical capital accumulation, and labor in driving long-term economic expansion. Furthermore, endogenous growth theory identifies that innovation, human capital, and government policies are strategic elements in creating sustainable growth (Triani & Bendesa, 2018).

A steady rise in GDP values indicates the dynamics of economic growth and price stability at the provincial level, and in the context of local economies, GDP is the primary tool for assessing local economic performance (Simanungkalit, 2020). Tourism has driven local and national economic growth since 2020–2024. The National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional*/RPJMN) identified ten Priority Tourism Destinations (Destinasi *Pariwisata Prioritas*/DPP). Global tourism in 2024 recovered to 99% of pre-pandemic conditions, with a significant contribution to foreign exchange, employment and cross-sector investment (Simorangkir et al., 2024). In Indonesia, foreign tourist visits reached 13.9 million and domestic tourist trips exceeded

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one billion in the same year, which directly increased tourism's contribution to national GDP by more than 4% and absorbed more than 25 million workers.

Keynesian theory explains that investment in the tourism sector creates a multiplier effect that benefits local communities through increased income, contribution to small and medium-sized enterprises, expansion of employment opportunities, and an increase in living standards (Triani & Bendesa, 2018; Lubis et al., 2023). Tourism activities not only drive the consumption of local goods and services such as accommodation, transportation, and culinary, but also fuel the growth of related sectors through increased domestic demand for investment and consumption (Yakup & Haryanto, 2021; Rahmayani et al., 2022; Mardhani et al., 2024). However, the tourism sector also has the potential to have negative impacts in the form of increased population migration, environmental degradation, accelerating inflation rates, and escalation of prices of goods and services (Paramati et al., 2017; Wardiyanta, 2020).

Local spending plays a strategic role in accelerating economic growth through budget allocation for infrastructure development, revitalization of tourist areas, and building public service capacity (Triani & Bendesa, 2018; Mardiyani & Izharudin, 2024). In addition to fiscal factors, the stability of macroeconomic indicators such as exchange rates and inflation also affects the competitiveness of destinations and the purchasing power of tourists, both domestic and foreign (Yakup & Haryanto, 2021). Various empirical studies show mixed results regarding the impact of tourism on local economic growth. Research by Ramdhani (2015) and Simanungkalit (2020) confirms the significant positive influence of domestic tourists on GDP, while Fitriani (2018) and Amin (2024) find negative influences in a given period.

Based on this, there are research gaps in the form of inconsistencies in previous research results, limited studies that comprehensively integrate tourism variables (tourist numbers, spending, and hotel occupancy rates), and a lack of analysis that combines fiscal and macroeconomic factors in a single integrated model (Fitriani, 2018). Furthermore, most research focuses on specific regions or periods, thus failing to fully describe the dynamics of economic growth at the provincial level. Therefore, this research is urgently needed to provide a more comprehensive understanding of the role of the tourism sector, local spending, and macroeconomic stability in driving local economic growth in Indonesia. The results are expected to serve as a basis for formulating more inclusive, sustainable, and evidence-based local economic development policies, particularly in optimizing tourism's potential as a driver of economic growth during the 2018–2023 period.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of the Number of Tourists on Economic Growth

The number of domestic and international tourists represents a key indicator in assessing the dynamics of tourism activity and its contribution to local economic growth. An increase in tourist arrivals reflects higher mobility and consumption of tourism-related services, which can generate multiplier effects across local economies. However, the relationship between tourist arrivals and economic growth is not necessarily linear, as its effectiveness depends on spending patterns, length of stay, and linkages with productive sectors. In developing economies such as Indonesia, local heterogeneity and the degree of local economic integration play important roles in determining the economic impact of tourism flows (Ramdhani, 2015; Simanungkalit, 2020).

Empirical evidence by Aslan (2016) and Fitriani (2018) suggests that international tourists generally contribute more significantly to economic growth due to higher per capita spending and stronger engagement with formal economic sectors. Nevertheless, the magnitude of this impact is contingent upon the destination's ability to capture value-added activities within the local economy. In contrast, domestic tourists tend to exhibit shorter stays and lower-value consumption patterns, often concentrated in basic services, which limits their measurable contribution to formal GDP (Wijijayanti, 2021).

H1: The number of domestic tourists has a significant effect on provincial economic growth.
H2: The number of foreign tourists has a significant effect on provincial economic growth.

The Effect of Tourism Spending on Economic Growth

Domestic and foreign tourism spending are critical variables in explaining the contribution of tourism to local economic growth. The economic impact of tourism is not solely determined by the number of arrivals, but also by the level, structure, and composition of tourist spending during their stay. Higher spending allocated to accommodation, food services, transportation, and locally produced goods and services tends to generate stronger multiplier effects through intersectoral linkages within the local economy, thereby enhancing overall economic activity and value creation (Brida et al., 2016). In this context, the quality of tourist spending becomes a fundamental determinant in assessing the extent to which tourism contributes to local economic development, rather than merely the volume of tourist flows. A more diversified and locally integrated spending pattern is expected to produce greater economic spillovers across related sectors.

Differences between domestic and international tourism spending are also economically significant in shaping local growth outcomes. International tourists generally exhibit higher spending capacity, longer stays, and greater engagement with formal economic sectors, which in turn contribute substantially to foreign exchange earnings and exert a stronger influence on economic growth (Dogru & Bulut, 2018; Bursan, 2024). In contrast, domestic tourism spending is often relatively constrained and predominantly allocated to basic consumption activities, resulting in limited linkages with high-value-added productive sectors. Consequently, its measurable contribution to formal economic growth tends to be weaker compared to international tourism spending (Wijijayanti, 2021).

H3: Domestic tourism spending has a significant effect on provincial economic growth.
H4: Foreign tourism spending has a significant effect on provincial economic growth.

The Effect of Hotel Room Occupancy Rate on Economic Growth

Hotel occupancy rates serve as important indicators of tourism sector performance and its contribution to local economic activity. Star-rated hotels reflect higher service quality, greater formalization, and stronger integration with other economic sectors. This condition enables the generation of more substantial multiplier effects through formal supply chains, standardized operational systems, and well-developed linkages with transportation, hospitality services, and trade-related industries (Nunkoo et al., 2020). Occupancy rates in star-rated hotels can be interpreted as a proxy for tourism quality, destination competitiveness, and the overall maturity of the tourism industry within a region. Higher occupancy in this segment typically signals stronger tourism demand, improved service standards, and greater capacity to translate tourism activity into measurable economic output (Fitriani, 2018).

In contrast, non-star accommodation, while contributing to inclusive and community-based tourism development, tends to have a more limited impact on formal economic growth (Ramdhani, 2015). This is largely attributed to smaller operational scale, informal business structures, and relatively weak integration with formal supply chains and statistical recording systems (Pablo-Romero & Molina, 2013). As a result, a significant portion of economic activity generated in this segment may not be fully captured in official GDP measurements. Nevertheless, non-star accommodation remains important in supporting tourism accessibility, particularly for lower-income travelers, and in promoting broader participation of local communities in the tourism economy, even though their direct contribution to aggregate economic growth is comparatively modest (Wijijayanti, 2021).

H5: Non-starred hotel room occupancy rate has a significant effect on provincial economic growth.
H6: Starred hotel room occupancy has a significant effect on provincial economic growth.

Local Spending, Macroeconomics Indicators, Infrastructure, and Economic Growth

Local government spending, macroeconomic indicators, and infrastructure represent structural determinants of local economic growth. Public spending plays a strategic role in stimulating economic activity through resource allocation, particularly when directed toward productive capital such as infrastructure. However, the effectiveness of fiscal spending depends on governance quality, budget composition, and implementation efficiency (Pusung et al., 2024; Rusneni et al., 2025). An imbalance between consumptive and productive spending may weaken its growth impact.

Macroeconomic variables such as exchange rates and inflation play a crucial role in shaping local economic performance. Exchange rate depreciation can increase production costs, particularly in economies that rely heavily on imported inputs, thereby reducing competitiveness (Agiomirgianakis et al., 2014). Meanwhile, moderate inflation may reflect rising aggregate demand, which can stimulate economic growth and expansion (Tang & Tan, 2015). In addition, infrastructure, as a control variable, serves as a fundamental driver that improves connectivity, lowers transaction costs, and enhances local competitiveness, ultimately supporting sustained economic development (Khadaroo & Seetanah, 2008).

H7: Local government spending has a significant effect on provincial economic growth.
H8: Exchange rate has a significant effect on provincial economic growth.
H9: Inflation has a significant effect on provincial economic growth.
H10: Infrastructure has a significant effect on provincial economic growth.

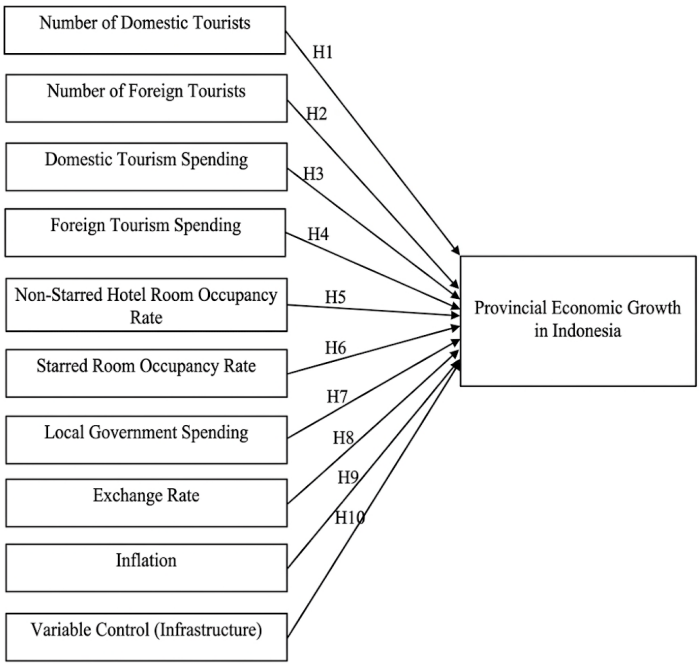

Figure 1. Conceptual Framework

Figure 1 shows the conceptual framework of this study, which analyzes the influence of various independent variables on the economic growth of provinces in Indonesia as the dependent variable. These variables include tourism aspects, such as the number of domestic and international tourists, tourist spending, and occupancy rates of starred and non-starred hotels, which theoretically contribute to increased local economic activity. Furthermore, fiscal factors, such as local government spending, and macroeconomic

indicators such as the exchange rate and inflation, are also included as determinants of economic growth. Infrastructure is used as a control variable to capture its supporting role in improving connectivity and economic efficiency. This model tests the direct relationship of each variable through hypotheses (H1–H10) to economic growth.

RESEARCH METHODS

Using a quantitative methodology and explanatory design, this study seeks to investigate the causal relationship between independent and dependent variables through statistical analysis (Sugiyono, 2013). This method was chosen because it is in accordance with the positivist paradigm that emphasizes objective measurement and hypothesis testing based on numerical data. Twenty Indonesian provinces were chosen for the study population based on their contribution to the tourism industry, their potential as tourist destinations, and their location in the western, central, and eastern parts of Indonesia. From this group of people, 11 regions were chosen at random as a study sample. This is called simple random sampling, and it gives every unit an equal chance of being chosen, no matter what kind of group. The provinces that were sampled included North Sumatra, West Sumatra, Central Java, South Sulawesi, DKI Jakarta, Special Region of Yogyakarta, West Java, East Java, Banten, East Kalimantan, and Riau Islands.

In a 2018–2023 cross-section and time series panel, the Central Statistics Agency (*Badan Pusat Statistik*/BPS), Ministry of Tourism and Creative Economy, Directorate General of Fiscal Balance of the Ministry of Finance, and Bank Indonesia contributed secondary data. The study's independent variables include domestic and foreign tourists, tourist spending, star and non-star hotel room occupancy rates, local spending, and macroeconomic indicators like inflation and the IDR exchange rate against the US dollar. The dependent variable in this study is GDP growth on a Constant Price Basis (*Atas Dasar Harga Konstan*/ADHK). Controlling external influences that affect economic growth with infrastructure.

Panel data regression using CEM, FEM, and REM estimation techniques was used to analyze the data. The Chow Test was used with a significance threshold of $\alpha = 0.05$ to compare CEM to FEM. The Lagrange Multiplier (LM) Test was used to assess if the individual effects of CEM and REM were statistically significant. The Hausman Test was used to distinguish between REM and FEM. Rigid specification tests were used to choose the best model. Before the model estimate, classical assumption testing was done to verify the results. Testing for multicollinearity, heteroscedasticity, autocorrelation, and normality involved the Variance Inflation Factor (VIF) with a limit of ≤ 10 (Gujarati, 2021), Breusch-Pagan-Godfrey Test, Durbin-Watson Test, and Jarque-Bera Test with a probability value criterion of > 0.05. A determination coefficient analysis determines the percentage of dependent variable variations that the model can explain, a simultaneous significance test (F test) evaluates the influence of all independent variables on the dependent variables, and a partial significance test (t-test) evaluates each independent variable separately. To produce solid, trustworthy recommendations for tourism-based local economic development policy, the entire estimating and testing procedure uses a 95% confidence level with a 5% analysis error rate.

RESULTS

The Common Effect Model (CEM) and Fixed Effect Model (FEM) are tested for feasibility in the Chow Test, which starts panel data estimation model selection. This test examines whether the study sample cross-sectional units differ in individual characteristics. The hypothesis used is that H_0 expresses CEM more precisely, while H_1 expresses FEM is more appropriate. At 5% significance, cross-section F and Chi-square probability values guide decision-making.

Based on Table 1, the Chow Test results show that the probability values for both the Cross-section F (0.0007) and Cross-section Chi-Square (0.0000) are lower than the 0.05 significance level, leading to the rejection of the null hypothesis. This indicates that there

are significant differences in characteristics across cross-sectional units, meaning the data cannot be appropriately pooled into a single homogeneous model. In econometric terms, the Chow Test evaluates whether regression coefficients are identical across groups or whether structural differences exist. Therefore, the FEM is more suitable than the CEM, as it accounts for heterogeneity across individual units in panel data analysis.

Table 1. Chow Test Results

Effect Test	Statistics	df	Prob
Cross-section F	3.901824	10.45	0.0007
Cross-section Chi-Square	41.208514	10	0.0000

The Hausman Test decides between the FEM and REM after the Chow Test. This test shows if model independent variables and individual effects are associated. The hypothesis used is that H_0 expresses REM more precisely, while H_1 expresses FEM as more appropriate.

Table 2. Hausman Test

Test	Information
Test Summary	Cross-section random
Chi-Sq Statistics	0.000000
df	10
Prob	1.0000

Based on Table 2, the results of the Hausman Test show a probability value (Prob) of 1.0000, which is much greater than the 0.05 significance level, so the null hypothesis (H0) cannot be rejected. This indicates that the Random Effect Model (REM) is more appropriate to use than the FEM, because there is no correlation between individual effects and the independent variables in the model. Contextually, the Hausman Test is used to select the best model between FEM and REM by testing the consistency of the estimator, where a probability greater than 0.05 indicates that the REM estimator is efficient and consistent for use in panel data analysis.

Table 3. LM Test Results

Test	Cross-section	Time	Both
Breusch Pagan	3.094825	45.70781	48.80264
	(0.07585)	(0.0000)	(0.0000)
Honda	1.759211	6.760755	6.024526
	(0.0393)	(0.0000)	(0.0000)
King-Wu	1.759211	6.760755	6.535815
	(0.0393)	(0.0000)	(0.0000)
Standardized Honda	3.124462	16.08467	6.352831
	(0.0009)	(0.0000)	(0.0000)
Standardized King-Wu	3.124462	16.08467	7.975507
	(0.0009)	(0.0000)	(0.0000)
Gourieroux et al.	--	--	48.80264
			(0.0000)

Based on Table 3, the results of the Lagrange Multiplier (LM) test show that most of the probability values in various methods (Breusch-Pagan, Honda, King-Wu, and their derivatives), especially in the time and both dimensions, are smaller than 0.05, so the null hypothesis is rejected. This indicates the presence of significant random effects in the panel data, so the REM is more appropriate to use than the CEM, because it is able to capture variations between individuals and time in the model.

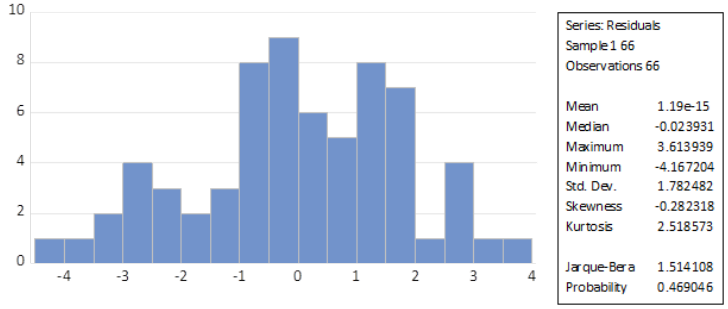

Figure 2. Normality Test Result

Based on Figure 2, the Jarque-Bera value of 1.514108 with a probability of 0.469046, greater than 0.05. The kurtosis of 2.518573 and the skewness value of -0.282318 are near the optimal value for a normal distribution. The residual model's normal distribution is confirmed by these findings, indicating that the normality criteria are satisfied and the model is viable for additional study.

Table 4. Multicollinearity Test Result

Variable	Coefficient Variance	Uncentered VIVID	Centered VIVID
Constant	122.0028	2144.435	NA
Number of Domestic Tourists	3.19E-16	3.487887	2.272492
Domestic Tourism Spending	9.60E-14	1.870326	1.697083
Non-Starred Hotel Room Occupancy Rate	6.01E-08	6.791285	1.474658
Foreign Tourism Spending	3.16E-07	20.18076	2.528175
Starred Hotel Room Occupancy	0.001758	73.08935	2.625688
Local Government Spending	0.001139	15.98710	1.8696010
Number of Foreign Tourists	5.45E-09	10.18549	2.901356
Exchange Rate	5.48E-07	2024.612	1.446665
Inflation	0.051152	9.556406	1.769697
Infrastructure (Control)	6.33E-10	6.955071	2.104599

Table 4 shows the results of the multicollinearity test, indicating that all centered VIF values for independent variables are below 5, with most approaching 1–3, indicating no serious multicollinearity problems in the model. In general, a VIF value below 5 is still considered safe and indicates a relatively low correlation between independent variables and is acceptable in regression analysis. Although there are high Uncentered VIF values in several variables, the main interpretation in the multicollinearity test focuses more on the centered VIF, so it can be concluded that the regression model used is free from multicollinearity interference and is worthy of further analysis.

Table 5. Heteroscedasticity Test Results

Test	Value
F Statistic	1.895419
Obs*R-squared	16.91556
Scaled explained SS	8.919275
Prob. F (10.55)	0.0655
Prob. Chi-Square (10)	0.0763
Prob. Chi-Square (10)	0.5398

Table 5 shows the probability value of F of 0.0655 and the probability of Chi-Square of 0.0763, both greater than 0.05. These results confirm that there are no symptoms of heteroscedasticity, so the residual variance is homogeneous, and the model meets the assumption of homoscedasticity. Table 6 shows that the Durbin-Watson value of 2.019064, which is close to 2, indicates the absence of autocorrelation in the model residuals. Thus, the regression model used has a good level of feasibility and meets the basic assumptions for further analysis.

Table 6. Model Summary

Test	Value
R-Squared	0.621749
Adjusted R-Square	0.552977
Sum squared resid	206.5207
Mean dependent var	3.704394
Durbin-Watson stat	2.019064
F-statistic	9.040626
Probability	0.000000

Table 6 presents an R-Square value of 0.621749, indicating that approximately 62.17% of the variation in provincial economic growth in Indonesia can be explained by the independent variables in the model, while the remainder is influenced by other factors outside the model. The Adjusted R-Square value of 0.552977 indicates that after adjusting for the number of variables, the model still has quite good explanatory power. Furthermore, the F-Statistic value of 9.040626 with a probability of 0.000000 (<0.05) indicates that the model is simultaneously significant, meaning that all independent variables jointly influence the dependent variable.

Table 7. Hypothesis Testing

Variable	Coefficient	Std. Error	t-statistic	Prob.
Constant	4.928601	8.936748	0.551498	0.5835
Number of Domestic Tourists → Provincial Economic Growth	2.02E-08	1.44E-08	1.396217	0.1683
Domestic Tourism Spending → Provincial Economic Growth	-2.92E-08	2.51E-07	-0.116408	0.9078
Non-Starred Hotel Room Occupancy Rate → Provincial Economic Growth	0.000331	0.000198	1.668266	0.1009
Foreign Tourist Spending → Provincial Economic Growth	0.000909	0.000455	2.000512	0.0494
Starred Room Occupancy Rate → Provincial Economic Growth	0.248994	0.030923	7.339910	0.0000
Local Government Spending → Provincial Economic Growth	-0.003589	0.027308	-0.131412	0.8959
Number of Foreign Tourists → Provincial Economic Growth	-5.58E-05	5.97E-05	-0.934174	0.3543
Exchange Rate → Provincial Economic Growth	-0.001226	0.000599	-2.046918	0.0455
Inflation → Provincial Economic Growth	0.574573	0.182990	3.139910	0.0027
Infrastructure → Provincial Economic Growth	4.27E-05	2.04E-05	2.099310	0.0404

Based on Table 7, the partial test results indicate that not all independent variables have a statistically significant effect on provincial economic growth in Indonesia. Using a 5% significance level ($\alpha = 0.05$), variables with probability values (p-values) below 0.05 are considered statistically significant, meaning the null hypothesis of no effect can be rejected. In this study, foreign tourist spending (p= 0.0494), star-rated hotel occupancy rate (p= 0.0000), exchange rate (p= 0.0455), inflation (p= 0.0027), and infrastructure as a control variable (p= 0.0404) are statistically significant determinants of economic growth. In terms of direction, variables such as hotel occupancy and inflation exhibit a positive relationship, while the exchange rate shows a negative effect.

Variables including the number of domestic tourists, domestic tourism spending, non-star hotel occupancy rate, local government spending, and the number of foreign tourists have p-values greater than 0.05, indicating that their effects are not statistically significant. This suggests that, although theoretically relevant, these variables do not provide sufficient empirical evidence to influence economic growth within the observed period. The findings highlight that only specific tourism and macroeconomic indicators play a significant role in driving local economic growth, while others may require stronger supporting conditions or policy interventions to become impactful.

DISCUSSION

Based on the random effect model estimation results, four out of nine independent variables are found to significantly influence provincial economic growth in Indonesia over the 2018–2023 period. Foreign tourist spending has a positive and significant effect, supporting the Tourism-Led Growth Hypothesis, which states that international tourist spending stimulates economic growth through multiplier effects such as increased service exports, foreign exchange earnings, and employment creation (Fieger & Rice, 2016; Pramaningtyas et al., 2022). This finding is consistent with the view that tourism functions as a key driver of local economic performance by integrating consumption flows into local economic structures, as widely discussed in tourism growth literature (Nguyen, 2023; Seyfi et al., 2024).

The star-rated hotel room occupancy rate shows the strongest positive and highly significant effect, indicating that higher hotel occupancy substantially contributes to local economic activity. This result suggests strong intersectoral linkages between the accommodation industry and supporting sectors such as transportation, trade, and creative industries, aligning with Ayu and Derizali (2023) and Rusneni et al. (2025). Such findings are also consistent with previous studies showing that tourism development enhances productivity and stimulates broader economic activity through sectoral spillovers and infrastructure utilization (Ghifara et al., 2022; Banos-Pino et al., 2023).

In contrast, the exchange rate has a significant negative effect, implying that depreciation of the IDR increases production costs due to high import dependence, particularly for intermediate goods. This result aligns with the Mundell-Fleming framework, which explains that in open economies with high import intensity, currency depreciation can reduce economic efficiency and increase input costs (Dvoskin et al., 2024). Meanwhile, inflation has a positive and significant effect, indicating that moderate inflation reflects increased aggregate demand and economic expansion, consistent with Keynesian theory, which suggests that controlled inflation can stimulate consumption and investment (Agus & Sari, 2021).

Furthermore, the infrastructure variable is also positive and significant, confirming its role as a key enabling factor in local economic growth. From a theoretical perspective, this supports the Neoclassical Growth Theory (Solow), which emphasizes physical capital accumulation as a fundamental driver of output expansion. Infrastructure enhances productivity by reducing transaction costs and strengthening connectivity across economic sectors, thereby amplifying the effects of tourism, trade, and fiscal variables (Alanshari, 2024; Ogbuabor et al., 2025).

Several variables are found to be statistically insignificant, including the number of domestic tourists, domestic tourism spending, non-star hotel occupancy rate, local government spending, and the number of foreign tourists. The insignificance of domestic tourism variables suggests that the volume of tourist arrivals and spending does not automatically translate into meaningful economic impact, consistent with Aliansyah and Hermawan (2019), who argue that the short length of stay and low value-added consumption limit tourism's contribution to local economies. Similarly, Wijijayanti (2021) notes that domestic tourism spending is often concentrated on basic consumption, limiting spillover effects into productive sectors. The insignificant effect of non-star hotel occupancy further indicates limited competitiveness and scale in the informal accommodation sector, although it may still support community-based tourism if properly developed (Rahmi et al., 2024).

In addition, the insignificant effect of local government spending suggests inefficiencies in fiscal allocation, particularly the dominance of consumptive over productive spending. This finding is consistent with Pusung et al. (2024) and Rusneni et al. (2025), who emphasize that the effectiveness of public spending depends heavily on allocation quality and governance efficiency. The insignificance of foreign tourist numbers also highlights that tourist quantity alone is insufficient without corresponding increases in spending intensity and economic linkage.

These results imply that tourism-driven economic growth in Indonesian provinces is not determined merely by tourist arrivals, but rather by tourism quality (spending intensity), infrastructure readiness, macroeconomic stability, and structural efficiency of public spending. Therefore, policy emphasis should shift toward enhancing high-value tourism segments, strengthening infrastructure investment, improving fiscal efficiency, and stabilizing macroeconomic conditions to achieve inclusive and sustainable local economic growth.

CONCLUSION

The results of the study indicate that of the nine independent variables, only five variables significantly influenced provincial economic growth in Indonesia during the 2018–2023 period. These variables include foreign tourist spending, star-rated hotel occupancy rates, inflation, exchange rate, and infrastructure. Foreign tourist spending and star-rated hotel occupancy rates had positive and significant effects, confirming the important role of the quality and intensity of tourism activity in driving local economic growth through multiplier effects and intersectoral linkages. Meanwhile, controlled inflation also showed a positive effect, indicating a boost in aggregate demand, while infrastructure proved to be a key supporting factor in increasing economic productivity and connectivity. Conversely, several variables, such as the number of domestic tourists, domestic tourist spending, non-star-rated hotel occupancy rates, local government spending, and the number of foreign tourists, did not significantly influence growth, indicating that the volume of economic activity does not necessarily contribute directly to growth without adequate quality and efficiency.

These results imply that policymakers should prioritize enhancing tourism quality, strengthening infrastructure, and maintaining macroeconomic stability to achieve sustainable economic growth. Research implications refer to the broader significance and practical relevance of findings in informing policy and future studies. However, this study is limited by the scope of the variables used and the limited observation period, which means it does not fully capture long-term dynamics and more complex institutional factors. Therefore, future research is recommended to include variables such as governance, institutional quality, and the digitalization of the tourism sector, as well as using a dynamic or long-term panel approach to provide a more comprehensive picture of the determinants of local economic growth in Indonesia.

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