

Economic Development Strategy in Banten Province: Addressing the Impact of Inflation and Interest Rates on Poverty

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ABSTRACT

This study investigates the strategies for addressing the impact of inflation and interest rates on poverty in Banten Province, Indonesia.. The research aims to understand how existing economic policies affect community welfare and to identify effective strategies for mitigating the adverse effects of inflation and interest rates on the poor. Employing a descriptive qualitative approach, data were collected through interviews with key stakeholders from the Banten Development Economy Bureau and the Industry and Trade Office (DISPERINDAG), complemented by official documents and relevant literature. The collected data was analyzed through interactive data analysis stages based on Miles and Huberman's model. The findings underscore the necessity of maintaining macroeconomic stability through prudent monetary policies, stabilizing essential goods prices, supporting Micro, Small, and Medium Enterprises (MSMEs), promoting financial inclusion, providing social safety nets, investing in education, diversifying the economy, improving infrastructure, fostering collaboration among stakeholders, and continuously monitoring progress. This study recommends strengthening social safety nets, promoting MSME growth, improving financial literacy, and investing in education and infrastructure to reduce poverty in Banten Province

INTRODUCTION

Banten Province, as one of the rapidly developing regions in Indonesia, faces significant economic challenges. Although it has immense potential, including abundant natural resources and a sizable population, the poverty rate remains high. According to Lubis and Lubis (2024), the issue of unemployment absorption in Indonesia raises concerns about poverty that can disrupt social and political stability and affect residents' welfare. Therefore, it is crucial to study the poverty issues thoroughly.

One of the factors influencing poverty in Banten is inflation. High inflation can reduce community purchasing power, especially for those at the poverty line. Lestari et al. (2023) highlight that extreme poverty is strongly related to economic inequality, which in the context of Banten, indicates that inflation has the potential to widen economic disparities. Price instability of basic needs often threatens the economic conditions of vulnerable households, making it even more difficult for them to escape poverty.

On the other hand, high interest rates are also a key factor that can affect investment and, subsequently, Banten's economic growth. Ibrahim (2015) notes that support for economic development in Banten depends not only on bank funds (DPK) and financing but also on the prevailing market interest rates. High interest rates can hinder investments because entrepreneurs tend to delay expansion or business development plans. This can reduce the number of new jobs created, which should absorb labor and reduce poverty rates in the region.

The consequences of the combination of high inflation and high interest rates can lead to a more significant impact on economic development and welfare. For example, companies in Tangerang Regency have considerable resource potential that can be utilized to boost the economy, but in reality, many communities still live in poverty. This indicates challenges in converting potential into realities that improve community living standards.

The investment climate in Banten Province should be improved so that one of the key aspects is that government regulations ensure the attractiveness for investors to channel their capital into Banten.

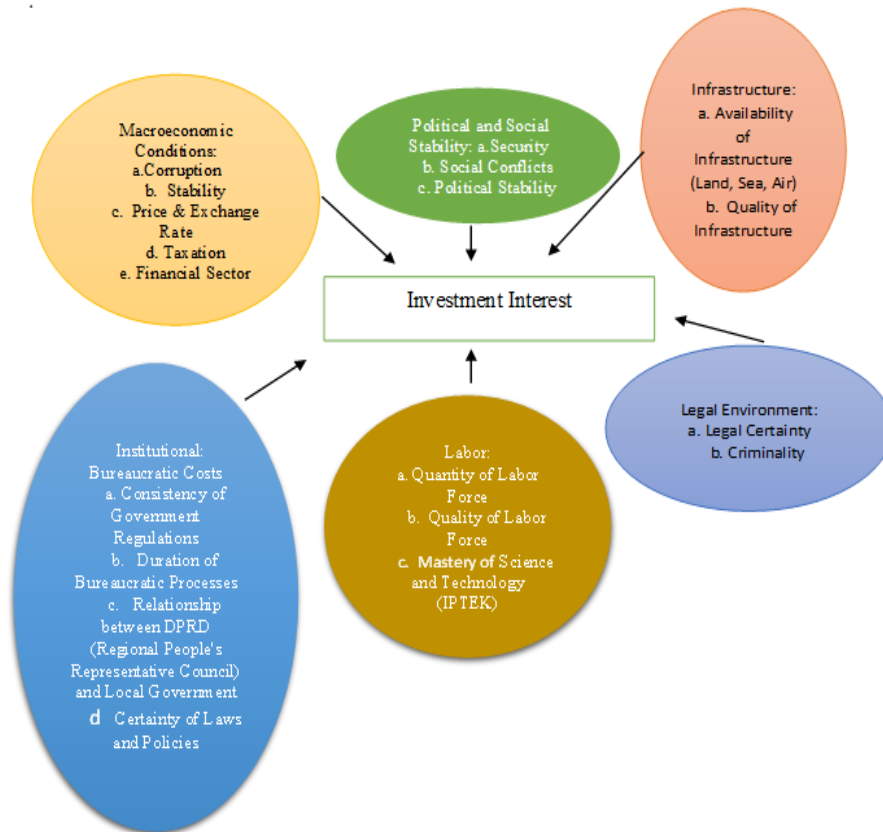


Figure 1. The Factors of Investment Interest

By increasing the number of investors willing to channel their capital into Banten Province, it will open up employment opportunities and absorb labor, supporting MSMEs (Micro, Small, and Medium Enterprises) around it. This will, in turn, increase community income, reduce unemployment rates, and lower poverty levels. As a result, the economic movement will start to run and grow, and community purchasing power will increase. Inflation will be driven towards normal levels because consumer spending will rise, supported by the production and distribution of goods returning to normal with adequate infrastructure. Additionally, a strong financial sector climate with relatively stable interest rate policies will eventually lead to an increase in economic growth in Banten Province, gradually reducing and controlling poverty. Ultimately, Banten Province will become a contributor to national economic growth, which will improve further.

A comprehensive development strategy is necessary to address these issues. First, the regional government needs to develop and implement economic policies responsive to inflation. Tight monetary policy and price regulation of basic needs can help maintain price stability. Moreover, programs supporting small and medium enterprises (SMEs) to face inflation, such as access to capital and business management training, need to be strengthened. Aditya (2024) shows that the development of more SMEs will positively impact GDP, contributing to inclusive economic growth. Second, to address the impact of high interest rates, efforts must be made to lower interest rates through policies favorable to the real sector. This can be achieved by involving banks in financing

programs that are stimulative with lower interest rates, thereby encouraging investment. Prabowo (2018) indicates that minimum wage variables have a significant effect on employment, so efforts to reduce interest rates can further increase investment certainty among entrepreneurs, which then impacts job creation opportunities.

Furthermore, education and training are key in addressing economic disparity and unemployment challenges. Saptanno and Maatoke (2022) found that the Human Development Index has a significant negative effect on unemployment rates. Therefore, improving the quality of education in Banten is vital to prepare a competitive workforce so they can better absorb available job opportunities. Collaboration between educational institutions and industry sectors in designing curricula aligned with labor market needs should also be realized.

LITERATURE REVIEW

On the social policy side, greater attention is needed to protect vulnerable groups from the impacts of inflation and economic instability. Effective and sustainable social assistance programs must reach those who need them most. Fatimah (2018) shows that poverty does not have a significant impact on the Human Development Index in districts/cities in Banten, indicating the need for more targeted interventions within programs. Based on the above, the researcher proposes a research question: what strategies are implemented to address the impact of inflation and interest rates on poverty in Banten Province?

METHODOLOGY

This research method uses a descriptive qualitative approach to explore economic development strategies in Banten Province, particularly in addressing the impacts of inflation and interest rates on poverty. The aim of this study is to gain an in-depth understanding of how existing economic policies can affect community welfare and to identify strategic steps that can be taken to improve the economic conditions in the region. Data are collected through interviews, documentation, and a review of relevant literature related to the research theme.

For data collection, interviews were conducted with five respondents, consisting of two staff members from the Banten Development Economy Bureau and three staff from the Banten Province Industry and Trade Office (DISPERINDAG). The selection of respondents was purposive to ensure they possess relevant knowledge and experience related to economic policies and their impact on poverty in the area. Additionally, documentation from official reports, policies, and available economic data also serve as information sources to support the findings from the interviews.

The collected data are then processed through the interactive data analysis stages based on Miles and Huberman's model. This method comprises three main stages: data reduction, data presentation, and verification or conclusion drawing. In the data reduction stage, irrelevant or redundant information is trimmed to focus the analysis on the core issues. Then, in the data presentation stage, relevant findings are arranged in a more structured format to facilitate understanding. Finally, in the verification or conclusion stage, the researcher will

examine the data more deeply to draw conclusions and ensure each conclusion is supported by strong evidence.

To ensure data validity, this study employs source triangulation, where data are obtained from various sources to achieve more accurate and comprehensive results. This triangulation involves collecting data from interviews, field observations, and related documentation. The planned timeline for this research is three months, from January to March 2025, with the hope of producing strategic insights applicable to overcoming the economic development challenges faced by Banten Province.

RESULTS AND DISCUSSION

According to the respondents, to effectively address the impact of inflation and interest rates on poverty in Banten Province, a multi-faceted and strategic approach is necessary, involving policies and programs at both regional and national levels. The comprehensive strategies include the following key components:

1. Monetary Policy Management

The provincial government, in collaboration with national monetary authorities, should promote a stable and predictable monetary environment. This involves implementing prudent monetary policies that control inflation without excessively suppressing economic growth. Central banks can set interest rates at levels conducive to economic stability, balancing the need for low inflation with accessible credit, particularly for small businesses and consumers.

2. Price Stabilization and Food Security Programs

The government should establish mechanisms to stabilize prices of essential goods and commodities, such as rice, cooking oil, and other basic needs. This might include establishing buffer stocks, regulating prices through subsidies or price ceilings, and improving supply chain efficiency to prevent shortages and price spikes. By ensuring affordability of basic necessities, the government can protect vulnerable populations from inflationary shocks.

3. Support for Micro, Small, and Medium Enterprises (MSMEs)

Given that MSMEs constitute a significant part of Banten's economy, targeted support in the form of easier access to low-interest credit, grants, and business management training can help them withstand inflationary pressures. Strengthening MSMEs helps maintain employment and income levels, thereby reducing poverty.

4. Interest Rate Policies and Financial Inclusion

Efforts should be made to lower interest rates for loans, especially for small entrepreneurs and farmers, through regulatory incentives or microfinance programs. This encourages investment and expansion, which can create jobs and reduce poverty. Promoting financial inclusion ensures that underserved populations can access affordable credit and banking services.

5. Welfare and Social Safety Net Programs

The provincial government should enhance social assistance programs, including direct cash transfers, food aid, and healthcare support, targeted at the most vulnerable groups affected by inflation and high-interest rates. These

programs help mitigate the adverse effects of economic volatility and reduce the risk of falling deeper into poverty.

6. Investments in Education and Workforce Development

Improving education and vocational training prepares the workforce to adapt to changing economic conditions, enhancing their resilience against inflation and interest rate fluctuations. A skilled labor force can better utilize economic opportunities and improve income stability.

7. Economic Diversification and Investment Attraction

Encouraging diversification of the local economy – such as investments in manufacturing, tourism, and agro-industry – reduces dependence on a limited number of sectors, mitigating vulnerability to inflationary shocks in specific industries. A diversified economy can generate more stable income sources and employment.

8. Strengthening Infrastructure and Market Access

Enhancing transportation, communication, and logistics infrastructure facilitates broader market access for producers and consumers, reduces costs, and stabilizes prices. Improved infrastructure supports the efficient distribution of goods and stabilizes supply and demand dynamics.

The strategies to combat the adverse effects of inflation and interest rates on poverty in Banten Province involve maintaining economic stability through prudent monetary policies, stabilizing essential goods prices, supporting MSMEs, promoting financial inclusion, providing social safety nets, investing in education, diversifying the economy, improving infrastructure, fostering collaboration among stakeholders, and continuously monitoring progress. Collectively, these measures aim to create a resilient economic environment that reduces poverty and promotes sustainable growth in Banten.

Addressing the impacts of inflation and interest rates on poverty in Banten Province requires a comprehensive and multi-dimensional strategy that is informed by various research findings and policy analyses. The high levels of poverty, despite the region's rich natural and human resources, highlight the need for interventions that not only stabilize macroeconomic variables but also target the underlying vulnerabilities that exacerbate poverty (Marthalina, 2018). In particular, the role of monetary policies in controlling inflation and interest rates can significantly influence the livelihood of low-income populations and MSMEs, which are vital drivers of economic growth and employment (Ibrahim, 2015). Therefore, a dual focus on macroeconomic stability and targeted social policies is essential for sustainable poverty reduction in Banten.

One crucial step to mitigating inflation's adverse effects is the stabilizing of prices of essential goods, which directly impacts real income and purchasing power. The government should implement price stabilization policies and establish strategic buffer stocks for staples like food items, thereby preventing sharp price hikes that impoverished communities are least able to withstand (Fahmi et al., 2018). Moreover, strengthening social safety net programs, such as cash transfers and subsidized food programs, can cushion vulnerable households during inflationary periods, ensuring they can meet their basic needs without falling deeper into poverty (Fatimah, 2018). Such interventions are vital in a region where infrastructure deficits, such as inadequate clean water access in

densely populated and coastal slum areas, continue to hinder poverty alleviation efforts despite the implementation of cross-sectoral programs (Marthalina, 2018). Controlling interest rates is equally important, especially considering their influence on investment climate and MSMEs. High interest rates can deter small entrepreneurs from expanding their businesses, which limits job creation and thus sustains high unemployment and poverty levels (Prabowo, 2018). In this context, governors and policymakers should collaborate with financial institutions to offer low-interest or subsidized loans targeting MSMEs, enabling them to grow and provide employment opportunities to local communities. Such initiatives should be complemented by financial literacy programs to help entrepreneurs better manage credit, thereby reducing default risk and fostering a more conducive environment for investments that create sustainable livelihoods.

Furthermore, developing a supportive environment for MSMEs can have long-term benefits for economic inclusion and income stability (Aditya, 2024). Encouraging the formalization of small businesses through training programs, access to microfinance, and simplified regulatory procedures can enhance their productivity and resilience against inflation shocks. Given that a majority of the local workforce is employed in MSMEs, their growth can directly contribute to poverty reduction by increasing household income levels and improving living standards. Additionally, the government should facilitate the diversification of local industries, such as agro-industry, manufacturing, and tourism, to lessen dependence on sectors that are highly vulnerable to inflation, thereby stabilizing income streams and employment opportunities.

Another key aspect is the need for structural reforms aimed at improving the overall economic resilience of Banten, including infrastructure development and human capital investment. Building better transportation, communication, and distribution networks will reduce logistical costs and price volatility, helping keep consumer prices in check. Simultaneously, investment in education and vocational training can increase the skill levels of the workforce, making labor more adaptable and better able to seize emerging economic opportunities (Saptenno & Maatoke, 2022). Improved human capital will also help mitigate the effect of inflation on poor households, as an educated and skilled workforce can access better-paying jobs and withstand economic shocks more effectively.

Policy measures should also focus on strengthening institutional frameworks and governance systems to ensure transparency and effective implementation of economic policies aimed at controlling inflation and interest rates. The regional government should coordinate with national agencies to develop integrated policies that monitor inflation trends, regulate prices, and ensure equitable access to credit. For example, measures such as interest rate caps or adjustable subsidy schemes could be introduced to support small farmers and entrepreneurs in vulnerable areas (Fahmi et al., 2018). Well-designed institutional mechanisms can facilitate the effective delivery of social programs, particularly targeted cash transfers or food subsidies, which are critical in regions with high poverty incidence and unequal access to services (Marthalina, 2018).

Lastly, continuous monitoring and evaluation of policy impacts are essential to adapt strategies effectively over time. Utilizing data on inflation rates,

interest rates, and income levels will enable policymakers to identify emerging vulnerabilities and respond proactively. As some studies suggest, variables such as the Human Development Index (HDI) are negatively associated with unemployment and poverty levels (Utami et al., 2022). Therefore, investing in health, education, and income-generating opportunities is crucial to break the cycle of poverty intensified by inflation. In this regard, cross-sectoral approaches that integrate economic, social, and infrastructural policies will be essential in ensuring that the benefits of macroeconomic stability translate into tangible improvements in the livelihoods of Banten's poor populations.

CONCLUSION AND RECOMMENDATION

Effectively mitigating the impacts of inflation and interest rates on poverty in Banten Province demands a multifaceted approach encompassing macroeconomic stability, targeted social safety measures, and strategic support for Micro, Small, and Medium Enterprises (MSMEs). Maintaining price stability through prudent monetary policies and supply-chain management, coupled with ensuring equitable access to financial resources for MSMEs, forms the bedrock of this strategy. Social safety nets, including cash transfers and subsidized essential goods, provide immediate relief to vulnerable populations. Investment in education and vocational training enhances the adaptability and earning potential of the workforce, while economic diversification mitigates vulnerability to sector-specific inflationary shocks. Improving infrastructure and governance further fosters economic resilience. Continuous monitoring and evaluation are critical to proactively address emerging vulnerabilities and ensure policy effectiveness. Successfully integrating these economic and social policies is essential for translating macroeconomic stability into tangible improvements in the livelihoods of Banten's impoverished communities, fostering sustainable and inclusive economic growth.

FUTHER STUDY

This research still has delays, so it is necessary to conduct further research related to the topic Economic Development Strategy in Banten Province: Addressing the Impact of Inflation and Interest Rates on Poverty in order to improve this research and add insight for readers.

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