



The Role of Inflation and Foreign Investment on Economic Growth in Banten Province

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ABSTRACT

Inflation and foreign investment have an important impact on economic growth in a province, including Banten Province. Investment can open up extensive employment opportunities. This research method uses a literature review method. Literature review is an important stage in research which aims to collect, analyze and summarize information from various sources relevant to the research topic. The research results show that high inflation can reduce people's purchasing power, so that household consumption can decrease. When inflation is out of control, people will be more careful in spending, which can affect demand for goods and services. High inflation rates can create uncertainty in the market, thereby reducing investors' interest in investing. Conversely, low and stable inflation can encourage greater investment

INTRODUCTION

Problems with inflation and investment in Banten province can include several interrelated aspects. The first problem is high inflation and rising prices of goods and services. High inflation can cause an increase in the prices of goods and services, reducing people's purchasing power (Suharlina, 2020). This can hinder consumption and affect economic stability. The second problem is unstable economic conditions. Economic uncertainty due to inflation can make investors hesitate to invest their capital. If the economy is unstable, investors may look for safer investment places (Palawe, 2023).

An equally important problem is the lack of infrastructure. - Inadequate infrastructure, such as roads, ports and electricity, can hinder investment. Investors will consider infrastructure factors in determining their investment location. Next factor is human resources (HR). Low quality human resources can be an obstacle to investment growth in the long term (Fajar, C. M., & Mulyanti, 2019). Inadequate worker education and skills can affect productivity and competitiveness.

In the areas of regulation and policy, there are still overlaps. Inconsistent or complicated government policies can be a barrier to investment. Investors need legal certainty and regulations that support business. Followed by political and social uncertainty. - Uncertainty related to political situations, such as elections and public policy, can create risks that disrupt the investment environment (Vernia, 2023).

By understanding this problem, stakeholders can find the right solution to increase inflation's stability and attract more investment to Banten's province. Based on the description above, researchers want to understand the role of inflation and investment on economic growth in Banten's province.

LITERATURE REVIEW

Inflation

In simple terms, inflation is defined as a general and continuous increase in prices. An increase in the price of just one or two goods cannot be called inflation unless the increase extends (or results in an increase in prices) for other goods (Rismawanti, & Darsyah, 2018). The opposite of inflation is called deflation. The indicator that is often used to measure the level of inflation is the Consumer Price Index (CPI). Changes in the CPI from time to time show price movements of the package of goods and services consumed by the public. Since July 2008, the package of goods and services in the CPI basket has been carried out on the basis of the 2007 Cost of Living Survey (SBH) carried out by the Central Statistics Agency (BPS). BPS will monitor price developments for these goods and services on a monthly basis in several cities, in traditional and modern markets for several types of goods/services in each city.

Inflation is a general and continuous increase in the prices of goods and services over a certain period of time (Panjaitan, et al, 2021). An increase in the price of just one or two goods cannot be called inflation unless the increase is widespread or results in an increase in the prices of other goods. The opposite of inflation is called deflation (Suprpto, 2023).

Inflation calculations are carried out by the Central Statistics Agency (BPS) in Indonesia. BPS conducts surveys to collect price data for various goods and services which are considered to represent public consumption spending. This data is then used to calculate the inflation rate by comparing current prices with previous periods.

Investation

Investment is the expenditure of a certain amount of funds from investors to finance production activities to gain profits in the future. Investment is created from capital investment both directly and indirectly by various parties with the aim of increasing output. investment, which is commonly referred to as capital investment, has an effect on a nation's economy (Vernia, et al, 2023). Investment allows society to continuously increase economic activity and employment opportunities, increase national income, and increase the level of prosperity of society. This role originates from three important functions of investment activities in the economy (Lisa, H., & Napratilora, 2020), namely:

1. Investment is a component of aggregate expenditure. Thus, an increase in investment will increase aggregate demand and national income.
2. The addition of goods and capital as a result of investment will increase the capacity to produce goods in the future and this development will stimulate additional national production and employment opportunities.
3. Observations are always followed by technological developments. This development will make an important contribution to increasing productivity and people's per capita income. Investment can be made in capital-intensive and labor-intensive industries. Capital-intensive industry is industry that is built with large amounts of capital for operational and development activities, while labor-intensive industry is industry that focuses more on a large number of workers or workers in its development and operation.

Economic Growth

Economic growth is one of the important goals of macroeconomic policy which will be able to provide social welfare. Banten Province is one of the youngest provinces that can be classified as a new province resulting from the expansion of West Java Province (Nugroho, 2017). As a new province where the economy relies on the manufacturing & chemical industry, it has a large workforce with a fairly high unemployment rate compared to other provinces in Indonesia.

METHODOLOGY

The method in this research is the literature review method. Literature review is an important stage in research which aims to collect, analyze and summarize information from various sources relevant to the research topic. The following are the general steps in conducting a literature review, namely, first determining the research topic, second collecting sources, assessing sources, reading and summarizing, categorizing, analyzing information, finding research gaps, making a report and making conclusions. The location chosen was Banten province. The data used is from 2010 to 2010. The data focuses on inflation, investment and economic growth in Banten.

RESULT AND DISCUSSION

Inflation and foreign investment have an important impact on economic growth in a province, including Banten Province. The following is a description of their roles:

The Role of Inflation on Economic Growth

Influence on purchasing power. High inflation can reduce people's purchasing power, so that household consumption can decrease. When inflation is out of control, people will be more careful in spending, which can affect demand for goods and services. Economic Stability. Stable inflation can create an environment that supports economic growth (Lisa, & Napratilora, 2020). Policy holders who are able to maintain inflation within reasonable limits can create confidence for economic actors, both individuals and companies.

The Effect of Inflation on Investment. High inflation rates can create uncertainty in the market, thereby reducing investors' interest in investing. Conversely, low and stable inflation can encourage greater investment. Increase in Production Costs: High inflation can trigger an increase in production costs for companies (Hakiki, et al, 2024). This can reduce profitability and, if costs cannot be passed on to consumers, may cause companies to reduce production capacity or delay expansion.

The Role of Foreign Investment in Economic Growth

The role of investment can create jobs. Foreign direct investment (FDI) can create new jobs in Banten Province, which increases the unemployment rate and provides economic opportunities for the local population. Apart from creating jobs, investment can create technology transfer. Foreign investment often brings with it new technology and knowledge. This can increase local industrial productivity and engineering and innovation capabilities in Banten.

A factor that is no less important is the growth of the economic sector. Foreign investment can strengthen certain sectors, such as the manufacturing industry, tourism or technology. This can diversify the local economy and reduce dependence on certain sectors (Vernia, 2024).

Investment can also improve infrastructure. Foreign investors often invest in building the infrastructure needed to support their business operations. Better infrastructure, such as roads, ports and other transportation facilities, supports overall economic growth, and finally investment can create better marketing and market access. Through foreign investment, local products can be more easily accessed in international markets, increasing exports and helping economic growth in Banten Province.

CONCLUSIONS AND RECOMMENDATIONS

Both inflation and foreign investment have an important role in influencing the economic growth of Banten Province. Controlled inflation can create a stable economic climate, while foreign investment can directly drive growth through job creation, infrastructure improvements and technology transfer. Therefore, it is important for the government and stakeholders to maintain a good balance between managing inflation and attracting foreign investment to support sustainable economic growth in Banten Province.

FURTHER STUDY

This research still has weaknesses, because the data does not represent all districts/cities in Banten.

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