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SOCIAL SCIENCE AND EDUCATION | RESEARCH ARTICLE

The Effect of Inflation on Poverty Levels In West Sulawesi Province, Indonesia

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Abstract: This study aims to analyze the impact of inflation on the poverty rate in West Sulawesi Province during the 2014–2023 period. Inflation is defined as a general increase in the prices of goods and services, often directly reducing people's purchasing power, particularly among low-income groups. The data used in this study were obtained from the Central Bureau of Statistics (BPS) of West Sulawesi and analyzed using a simple linear regression method with the assistance of the SPSS program. The results show that inflation has a positive and significant effect on the poverty rate, with a correlation coefficient of 0.834, indicating a very strong relationship between the two variables. These findings suggest that rising inflation in West Sulawesi Province tends to increase the number of people living in poverty, although other factors such as population growth and unemployment rates also contribute to poverty levels. Based on these results, this study recommends that local governments place greater emphasis on controlling inflation and creating employment opportunities as strategies to reduce poverty. Additionally, the researcher suggests further studies to explore other variables that may influence poverty in the region.

Keywords: Inflation, Poverty, Linear Regression.

1. INTRODUCTION

Inflation and poverty are two interconnected economic phenomena that significantly affect people's welfare. Inflation, defined as a general and sustained increase in the prices of goods and services, often presents a serious challenge for governments, particularly in developing countries like Indonesia. When inflation is uncontrolled, it reduces people's purchasing power, especially for those with fixed and low incomes, ultimately leading to an increase in the number of people living in poverty. Inflation has become a prominent issue in West Sulawesi Province in recent years. As a developing region, fluctuations in the inflation rate have significant implications for the welfare of its people. Data from 2020 to 2023 shows that the inflation rate in the province varied, peaking at 4.85 percent in 2022 before declining to 2.28 percent in 2023. These fluctuations not only influence the prices of goods and services but also directly impact the number of people living in poverty.

Poverty in West Sulawesi has shown a concerning trend, with the number of poor individuals rising from 152,020 in 2020 to 165,720 in 2022. Although there was a slight decrease in 2023, the poverty rate remains high. This study focuses on inflation as the main variable and aims to analyze its effect on the poverty rate in West Sulawesi Province. Inflation can trigger widespread economic instability, potentially intensifying the vicious cycle of poverty within society. According to classical economic theory, as outlined by Jhingan (2014), factors such as low productivity, capital shortages, and imperfect markets contribute to reinforcing this cycle of poverty. In this context, uncontrolled inflation can worsen the situation by eroding people's purchasing power, reducing consumption, and ultimately hindering investment and productivity.



The relationship between inflation and poverty is not merely a theoretical issue but a pressing reality faced by local governments and communities in West Sulawesi. When inflation rises, the cost of living increases, making it harder for people to meet their basic needs. For those already living below the poverty line, high inflation can push them even deeper into poverty. Conversely, effective inflation control plays a crucial role in maintaining economic stability and preventing an increase in the number of poor people. This study aims to examine whether inflation has a significant impact on the poverty rate in West Sulawesi Province and to explore the correlation between these two variables. By analyzing data from the Central Bureau of Statistics (BPS) and relevant literature, the study seeks to provide deeper insights into how inflation influences poverty and how the government can develop effective strategies to address this issue.

The focus of this study is to explore the relationship between inflation and poverty in West Sulawesi Province, with two main objectives: first, to determine the effect of inflation on the poverty rate, and second, to identify the correlation between inflation and poverty in the region. Based on this background, the study aims to answer two key research questions: (1) Does inflation have a significant effect on the poverty rate in West Sulawesi Province? (2) Is there a correlation between the inflation rate and poverty in this region? A deeper understanding of the impact of inflation and its correlation with poverty is expected to provide valuable insights for policymakers, helping to formulate more effective strategies to reduce poverty and improve the welfare of the people in West Sulawesi Province.

2. LITERATURE REVIEW

2.1. Economic Development

Before the 1960s, economic development was commonly defined as a country's ability to achieve and sustain a Gross National Product (GNP) growth rate of 5 to 7 percent or more per year, following a period of relative economic stagnation (Arsyad, 2016). However, modern perspectives on economic development extend beyond merely increasing macroeconomic indicators such as GNP or GDP. They also emphasize enhancing the overall quality of human life. Todaro (2015) defines development as a process aimed at improving the quality of life and human capabilities by raising living standards, fostering self-esteem, and expanding individual freedom. These three core values—sustenance, self-esteem, and freedom—represent the fundamental goals of development, pursued both by individuals and societies (Todaro, 2015).

Adequacy refers to the basic goods and services required to sustain human life at a minimum level, such as food, clothing, and shelter. Self-esteem, on the other hand, reflects the recognition and respect individuals receive from the social, political, and economic systems within society, emphasizing human values such as honor and dignity. Freedom, as described by Todaro, refers to a condition where individuals have various alternatives to fulfill their desires and the ability to make real choices according to their aspirations and capabilities (Todaro, 2015). According to Todaro, the objectives of economic development encompass three main aspects: first, increasing the availability and distribution of basic goods; second, improving living standards, which include not only income but also access to employment, education, and cultural values; and third, expanding economic and social choices to free individuals from dependence and ignorance (Todaro, 2015). Meanwhile, Conway (2019) emphasizes that the primary goal of economic development is to lift people out of poverty. However, as noted by Collier in Conway (2019), there are several barriers to economic development, including civil war, resource traps, landlocked geography, and poor governance.

According to Jhingan (2014), several conditions must be met to achieve economic development. First, development must rely on domestic economic strength, meaning the initiative to drive material progress should come from the citizens themselves. Second, market imperfections must be eliminated to enhance socio-economic institutions and provide broader, more affordable credit facilities for farmers, small traders, and entrepreneurs. Third, a structural transformation from a traditional agricultural economy to a modern industrial economy is crucial. Additionally, capital formation and the establishment of appropriate investment patterns are key factors in supporting economic growth.

Lastly, socio-cultural conditions, along with a strong, authoritative, and corruption-free administration, are essential to sustaining the development process (Jhingan, 2014).

2.2. Economic Growth

Economic growth is one of the key indicators used to analyze a country's economic development. Iskandar Putong (2018) defines economic growth as a significant increase in national income over a specific period. According to Schumpeter, economic growth occurs naturally as a result of rising population growth rates and savings rates. Furthermore, economic growth is often associated with successful development in developed countries, whereas in developing countries, the term economic development is more commonly used (Putong, 2018). Ari Mulianta (2019) highlights the importance of economic growth as an indicator for assessing the extent to which economic activities generate additional community income over a given period. An economy is considered to be growing when the real income of its people in one year exceeds that of the previous year. A widely used indicator to measure economic growth is the real Gross Domestic Product (GDP) growth rate (Mulianta, 2019)

2.3. Inflation

Inflation refers to a general and continuous increase in the prices of goods and services. According to Putong (2018), inflation occurs when price increases are not only widespread but also sustained over time. There are three main components that define inflation: rising prices, a broad impact across various goods and services, and persistence over time (Putong, 2018).

A price increase in a single commodity is considered inflationary only if it triggers a general rise in the prices of other goods and services. For example, an increase in the price of fuel oil (BBM) often leads to higher costs for other commodities, as BBM is a crucial component of production and transportation costs. To be classified as inflation, these price increases must persist over a certain period, typically measured on a monthly, quarterly, or annual basis (Putong, 2018). In analyzing inflation, aggregate demand and aggregate supply play a crucial role. Aggregate demand represents the total demand for goods and services within an economy over a specific period, while aggregate supply refers to the total output of goods and services available. Government monetary and fiscal policies significantly influence these components. For instance, a tight monetary policy can reduce the money supply, whereas an expansionary fiscal policy can boost aggregate demand by increasing government spending or lowering taxes (Putong, 2018).

2.4. Poverty

Poverty is one of the main challenges faced by developing countries, including Indonesia. Muhammad (2022) highlights that the high poverty rate poses a significant obstacle to development. Poverty is commonly defined as the inability of an individual to meet basic needs such as food, clothing, and shelter (Hardinandar, 2019). Furthermore, Ari Mulianta (2019) identifies four primary factors contributing to poverty: individual, social, cultural, and structural factors. Jhingan (2014) explains that underdeveloped countries often experience a vicious cycle of poverty, where low productivity results in low income and savings, which in turn discourage investment and exacerbate overall economic conditions. This vicious cycle can be observed from two perspectives: the demand side, where low income reduces demand, subsequently lowering investment and hindering economic growth; and the supply side, where a lack of capital and low productivity perpetuate low incomes and sustained poverty (Jhingan, 2014). According to Rezki Mardiatillah (2021), the poverty level refers to a condition in which an individual or group is unable to meet the standard of living requirements, including both food and non-food needs, ultimately affecting their overall well-being. A common indicator used to measure poverty is the poverty line, which is utilized by the Central Statistics Agency (BPS) to determine the number of poor individuals. The poverty line consists of the Food Poverty Line (GKM) and the Non-Food Poverty Line (GKNM), calculated based on the minimum expenditure needed to satisfy basic necessities (Mulianta, 2019).

3. RESEARCH METHOD AND MATERIALS

This research was conducted in West Sulawesi Province, focusing on the effect of inflation on poverty. The research location is the Office of the Central Bureau of Statistics (BPS) of West Sulawesi Province, where data related to inflation and poverty were collected. The study is planned to take place from February 2024 to July 2024, involving several stages, including initial observation, proposal preparation, data collection, data analysis, and the preparation of research results. The data used in this research consists of quantitative data obtained from secondary sources, specifically time series data from 2014 to 2023, covering the inflation rate and the number of poor people in West Sulawesi Province. The data was analyzed using the simple linear regression method to examine the effect of inflation on the poverty rate, along with a correlation test to determine the relationship between the two variables.

This research employs a quantitative method with an explanatory approach, aiming to explain the causal relationship between the independent variable (inflation) and the dependent variable (poverty rate). The quantitative data utilized in this study is sourced from official BPS publications and processed statistically to test the established hypothesis. Additionally, the researcher gathered qualitative data through a literature review to support the quantitative analysis by identifying relevant theories and previous research. Data collection techniques included direct observation and document study, where researchers accessed secondary data available at BPS for the period under study. The data analysis in this study was conducted using SPSS software, employing the simple linear regression method to measure the effect of inflation on poverty and the correlation test to assess the strength and direction of the relationship between the two variables. The partial t-test was used to examine the significance of the effect of inflation on poverty, while the correlation test evaluated the extent to which changes in inflation corresponded with changes in the poverty rate. The results of this analysis are expected to provide a clear understanding of how inflation influences poverty in West Sulawesi Province, as well as the strength of the relationship between these two variables.

4. RESULTS AND DISCUSSION

4.1. Inflation Rate in West Sulawesi Province

Inflation refers to a sustained increase in the general price level of goods and services over time, measured using the Consumer Price Index (CPI). In West Sulawesi Province, inflation is calculated based on price changes of 335 commodities categorized into 11 broad groups. Data on inflation in West Sulawesi Province over the past 10 years was obtained from the publications of the West Sulawesi Central Bureau of Statistics (BPS). The following table presents the annual inflation rate in West Sulawesi Province from 2014 to 2023:

Table 1. Inflation Rate in West Sulawesi Province

No.	Year	Inflation (%)
1	2014	7,88
2	2015	5,07
3	2016	2,23
4	2017	3,79
5	2018	1,80
6	2019	1,43
7	2020	1,78
8	2021	4,39
9	2022	4,85
10	2023	1,82

The table 1 shows that inflation in West Sulawesi Province fluctuated during the 2014–2023 period. The highest inflation rate was recorded in 2014 at 7.88%, while the lowest occurred in 2019 at 1.43%. The inflation rate for 2023 was also calculated.

When compared to the national average, the year-on-year inflation rate in West Sulawesi Province for 2023 was below the national level. The graph below illustrates this comparison:



Figure 1. Inflation Rate in West Sulawesi Province

Source: Regional Office of the Directorate General of Treasury of West Sulawesi Province

4.2. Overview of Poverty in West Sulawesi Province

To collect data on the number of poor people, the poverty rate, and the poverty line, BPS West Sulawesi Province conducted a survey using the direct interview method, employing questionnaires distributed to selected households. The results of this survey were subsequently published, and the data from the 2022 and 2023 surveys provided the following details on the number of poor people in each district of West Sulawesi Province:

Table 2. Poverty in West Sulawesi Province

No.	District	2022 (People)	2023 (People)	2022 (%)	2023 (%)
1	Majene	26.620	25.800	15,13	14,54
2	Polewali Mandar	72.870	71.920	16,38	16,08
3	Mamasa	23.700	23.580	14,51	14,31
4	Mamuju	23.260	23.500	7,63	7,57
5	Pasangkayu	9.300	8.940	5,08	4,78
6	Central Mamuju	9.980	10.390	7,17	7,32

The data in Table 2 shows that five out of six districts in West Sulawesi Province experienced a decrease in the number of poor people from 2022 to 2023, with the exception of Mamuju Tengah Regency, which saw an increase in the number of poor people. Overall, this data indicates that government programs aimed at reducing poverty have been successful in lowering the poverty rate in most areas of West Sulawesi Province.

4.3. The Effect of Inflation on Poverty Level in West Sulawesi Province

To analyze the impact of inflation on poverty in West Sulawesi Province, data on inflation and poverty rates over the past 10 years were collected. The following table presents the data for both variables:

Table 3. Poverty in West Sulawesi Province

No.	Year	Inflation (%)	Poverty Rate (%)
1	2014	7,88	12,05
2	2015	5,07	11,90
3	2016	2,23	11,19
4	2017	3,79	11,18

No.	Year	Inflation (%)	Poverty Rate (%)
5	2018	1,80	11,22
6	2019	1,43	10,95
7	2020	1,78	10,87
8	2021	4,39	11,29
9	2022	4,85	11,75
10	2023	1,82	11,49

Table 3 shows an inconsistent relationship between inflation and poverty rates in West Sulawesi Province. In some years, a decrease in inflation coincides with a reduction in poverty, while in others, lower inflation does not directly correspond to a decline in poverty. To explore this relationship further, a simple linear regression analysis was conducted, yielding the following results:

$$Y=a+bx+e=10,83+0,160x1+0,05$$

4.4. Data Analysis

The regression analysis results show that the constant value (a) is 10.83, indicating that, in the absence of inflation, the poverty rate is estimated to be 10.83%. The coefficient (b) of 0.160 suggests that for every 1% increase in inflation, the poverty rate rises by 0.160%. To test the significance of inflation's effect on poverty, a t-test was conducted. The results show a t-value of 4.282, which exceeds the t-table value of 2.306, indicating that the effect of inflation on poverty is statistically significant.

4.5. Correlation and Determination Test

The correlation test results using SPSS show that the correlation coefficient (R) between inflation and poverty is 0.834, indicating a very strong relationship. Meanwhile, the coefficient of determination (R Square) is 0.658, meaning that 65.8% of the variation in the poverty rate can be explained by changes in inflation, while the remaining 34.2% is influenced by other factors not included in the model. The findings of this study reveal that inflation has a significant impact on the poverty rate in West Sulawesi Province, aligning with the research conducted by Ayunita Kristin (2018) in Bali. However, these results differ from Rizki Amalia's (2022) study in Surabaya, which found no significant effect of inflation on poverty. This study also highlights that although inflation contributes to rising poverty levels, other variables play an important role in shaping the poverty rate. Therefore, the government should implement policies that not only focus on controlling inflation but also support income growth to effectively combat poverty.

5. CONCLUSION

This study examined the effect of inflation on the poverty rate in West Sulawesi Province from 2014 to 2023. Based on the data analysis, it can be concluded that inflation has a significant impact on the region's poverty rate. The simple linear regression results show that every 1% increase in inflation leads to a 0.160% rise in the poverty rate. The correlation coefficient of 0.834 indicates a very strong relationship between inflation and poverty, with inflation accounting for 65.8% of the variation in the poverty rate, while the remaining 34.2% is influenced by other factors not included in the model. The findings highlight the complexity of the relationship between inflation and poverty, emphasizing that poverty is not solely driven by inflation but also shaped by other variables such as unemployment, economic growth, and social policies. Overall, this study underscores that controlling inflation is a crucial step in reducing poverty in West Sulawesi Province. However, inflation control alone is insufficient. A more comprehensive approach one that promotes income generation, economic empowerment, and social protection is essential to effectively mitigate the impact of inflation on poverty.

Based on the findings of this study, several recommendations can be proposed for the government, academics, and relevant stakeholders to help control inflation and reduce poverty in West Sulawesi

Province: (1) The West Sulawesi Provincial Government should strengthen inflation control policies by Focusing on stabilizing the prices of goods and services, particularly those essential to the community's basic needs. Programs such as price subsidies, distribution control, and market monitoring should be intensified to prevent price spikes that directly affect the poor; (2) In addition to controlling inflation, the government should implement programs aimed at increasing household incomes, especially for low-income groups. Expanding access to skills training, entrepreneurship development, and business capital can foster economic independence and reduce reliance on social assistance.

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