International Journal of Business and Applied Economics (IJBAE)
Vol. 4, No. 5, 2025: 2849-2858

The Effect of Regional Original Revenue, Inflation, and Poverty Rate on Economic Growth in Banten Province

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ARTICLE INFO

Keywords: Regional Original Revenue, Inflation, Poverty Rate, Economic Growth, Banten

Received : 7, August
Revised : 22, August
Accepted: 23, September

ABSTRACT

This study investigates the influence of Regional Original Revenue, inflation, and poverty rate on economic growth in Banten Province from 2009 to 2022. Using a quantitative approach and multiple linear regression analysis, the research finds that Regional Original Revenue, inflation, and poverty collectively affect economic growth, with inflation showing a significant positive impact, and Regional Original Revenue a significant negative impact. Interestingly, the poverty rate does not show a significant effect, suggesting unequal distribution of economic gains across regions. The findings highlight the importance of effective fiscal allocation and the need for inclusive development strategies to ensure that local revenue and macroeconomic stability translate into broader economic prosperity. The study recommends strengthening fiscal governance, managing inflation productively, and addressing poverty through targeted human development policies. Future research should explore moderating variables and regional comparative frameworks to enrich understanding of Indonesia's regional growth dynamics.

DOI: https://doi.org/10.55927/ijbae.v4i5.409
ISSN-E: 2963-6124
https://nblformosapublisher.org/index.php/ijbae

INTRODUCTION

Economic growth remains a fundamental objective for all countries, both developed and developing living (Ardiansyah, 2017). Salim et al. (2021) says it is considered a key indicator of national progress and welfare improvement, as it reflects the increase in production capacity and the overall standard of living. However, achieving sustainable and equitable growth poses several structural challenges, including high poverty rates, persistent inflation, and disparities in regional development (Nuraini & Hariyani, 2019). A comprehensive approach to economic development requires not only achieving higher growth rates but also ensuring fair distribution of resources across regions and social classes.

Banten Province, as one of Indonesia's strategically located regions, holds significant economic potential due to its strong industrial base and proximity to the capital city, Jakarta. Key sectors such as manufacturing, trade, and agriculture contribute substantially to its regional GDP. Nevertheless, Banten continues to face disparities in development among its districts, especially between urban centers like Tangerang and rural areas such as Pandeglang and Lebak. According to data from Statistics Indonesia, the province experienced a sharp economic contraction of -3.39% in 2020 due to the COVID-19 pandemic but has shown a gradual recovery in the subsequent years, reaching 5.03% growth in 2022 (BPS, 2023). Despite this recovery, economic progress remains uneven.

One critical factor influencing regional economic growth is local fiscal capacity, which is often measured through Regional Original Revenue. Siddik in (Juliana & Soelistyo, 2019) argues that a region's ability to generate income varies based on its resource endowments and level of economic activity. Ideally, increased Regional Original Revenue should enable local governments to invest more in public infrastructure and stimulate development (Sari & Wany, 2017). However, in practice, the effectiveness of Regional Original Revenue is often undermined by inefficiencies in allocation and financial management (I. N. Sari, 2018).

Inflation, as a key macroeconomic indicator, also plays a vital role in shaping economic performance. A moderate and stable inflation rate can encourage investment and increase business revenues, which may, in turn, boost employment and economic growth (Septiatin et al., 2016). Conversely, high inflation erodes purchasing power and can suppress consumption, particularly among low-income households (Ningsih, 2018).

Another pressing issue is poverty. Poverty remains a multidimensional problem that reflects insufficient income, lack of access to basic services, and limited economic opportunities. In 2022, the poverty rate in Banten stood at 8.5%, indicating the persistence of inequality and uneven distribution of growth benefits (Setiawan, 2014). According to the Kuznets hypothesis, poverty and inequality tend to worsen in the early stages of development before improving as economies mature.

Based on these theoretical and contextual considerations, this study aims to analyze the influence of Regional Original Revenue, Inflation, and Poverty Rate on the Economic Growth of Banten Province over the 2009–2022 period. The findings are expected to provide insights for local policymakers in formulating more effective fiscal, monetary, and social policies to support inclusive and sustainable growth.

LITERATURE REVIEW

Economic Growth

Economic growth refers to the consistent increase in a region's or country's production capacity over time, typically measured by the real Gross Domestic Product (GDP) or regional GDP (Nairizi, 2023). Sukirno, (2015) defines economic growth as a sustained rise in national income, indicating improved economic activity compared to the previous period. The Keynesian perspective suggests that consumption and money circulation are essential drivers of growth, whereby increased consumer demand stimulates production and employment. Conversely, high inflation or widespread poverty may weaken consumption and, consequently, impede economic expansion.

From a broader development lens, economic growth also contributes to improved public welfare and facilitates the fulfillment of state responsibilities such as infrastructure provision and public service delivery (Asnidar, 2018). Therefore, factors that influence growth—both positively and negatively—must be understood within their macroeconomic and fiscal contexts.

Sukirno (2015) highlights four primary drivers of economic growth: (1) natural resources, which are crucial in the early stages of development; (2) labor quality and quantity, where education and experience can enhance productivity; (3) capital goods and technological advancement; and (4) sociocultural attitudes, such as work ethic and willingness to innovate. These components determine how fast and sustainably a region's economy can grow.

Regional Original Revenue

Regional Original Revenue, refers to locally generated income under the authority of local governments, as stipulated in Law No. 33 of 2004 (Halim, 2004; Sinaga et al., 2020). Regional Original Revenue comprises regional taxes, levies, proceeds from separated regional wealth, and other lawful local income. It reflects a region's financial independence and capacity to fund development without excessive reliance on central government transfers (Mardiasmo, 2018).

Theoretically, higher Regional Original Revenue should correlate with stronger economic performance by enabling investment in public services, infrastructure, and development programs (Sari & Wany, 2017). However, the effectiveness of Regional Original Revenue depends on how efficiently it is collected and allocated. I. N. Sari (2018) emphasizes that Regional Original Revenue varies significantly across regions, leading to fiscal disparities that contribute to unequal development.

Empirical studies also demonstrate Regional Original Revenue's positive relationship with growth. Yasin (2020) and Sulaeman & Silvia (2019) find that regions with greater Regional Original Revenue are more autonomous in designing development strategies, which boosts public investment and stimulates local economic activity.

Inflation

Inflation is defined as a sustained increase in the general price level of goods and services over time (Boediono, 2014). It is considered a crucial macroeconomic variable that reflects monetary instability (Putong, 2013). While mild inflation may incentivize investment and production, excessive inflation erodes purchasing power and causes uncertainty in markets (Widiastuti & Kosasih, 2021).

According to Keynesian theory, inflation may arise from an "inflationary gap," where aggregate demand outpaces supply, often triggered by increased government or private spending (Boediono, 1998). Inflation is also categorized based on intensity—creeping, galloping, and hyperinflation—and cause: demand-pull, cost-push, and imported inflation.

The relationship between inflation and economic growth is complex. (Pratama & Widyastuti, 2022) suggest that mild inflation can positively influence output by encouraging business expansion. However, high inflation generally has a negative impact by deterring investment and increasing production costs. Barro (1995) found that a 10% increase in inflation reduces real GDP growth by 0.2–0.3 percentage points annually.

Poverty Rate

Poverty reflects the inability of individuals or households to meet basic needs such as food, housing, education, and healthcare (Suryawati, 2004; Nehen, 2012). It is both an economic and social issue, often characterized by vulnerability, lack of resources, and marginalization (Monomimbar et al., 2022). In Indonesia, poverty is commonly measured using consumption-based thresholds as defined by Central Bureau of Statistics (BPS).

The Kuznets hypothesis suggests that in the early stages of development, inequality and poverty may increase as industrial sectors expand, but these gaps are expected to decrease in later stages as benefits of growth become more evenly distributed (Todaro, 2000). Kuznets' inverted U-curve model illustrates the nonlinear relationship between income distribution and economic development.

Several empirical studies, such as those by (Suryani, 2023), and (Novriansyah, 2018), confirm that higher poverty levels significantly constrain regional economic growth. Regions with high poverty rates often suffer from weak human capital, low productivity, and limited access to financial and public resources.

METHODOLOGY

This study employs a quantitative approach to examine the influence of Regional Original Revenue, inflation, and poverty rate on economic growth in Banten Province during the period 2009 to 2022. The analysis is based on secondary time series data obtained from the Central Bureau of Statistics (BPS) of Banten Province. A multiple linear regression model is used to assess how the three independent variables simultaneously affect the dependent variable, namely economic growth. This approach is suitable for identifying causal relationships using numerical data and statistical testing (Rustamana et al., 2024).

Economic growth is measured by the annual percentage change in real Gross Regional Domestic Product (GRDP), while Regional Original Revenue is expressed in million Rupiah to reflect the region's own-source financial capacity. Inflation is measured by the annual change in the consumer price index (CPI) expressed in percentage terms, and the poverty rate is represented by the percentage of the population living below the official poverty line. These variables were selected based on their relevance to regional development and their availability in official statistical reports.

The regression model applied in this study is expressed as follows:

$$Y=a + b1X1 + b2X2 + b3X3 + b4X4 + ... + bnXn + e$$

Where Y is the economic growth rate, X1 is Regional Original Revenue, X2 is inflation, X3 is the poverty rate, and e is the error term. The objective of this model is to quantify the partial and simultaneous effects of the independent variables on economic growth.

Prior to conducting regression analysis, several classical assumption tests were performed to ensure the validity and reliability of the model. The Shapiro-Wilk test was used to assess the normality of residuals. Multicollinearity was examined using Variance Inflation Factor (VIF) and Tolerance values to detect any strong correlation among independent variables. Heteroscedasticity was tested using the Spearman method to evaluate the consistency of variance in residuals. Additionally, the Durbin-Watson test was applied to detect the presence of autocorrelation in the residuals across time. All statistical procedures were carried out using SPSS.

RESEARCH RESULT

The analysis begins with the classical assumption tests, which indicate that the regression model meets the required conditions for validity. The normality test using the Shapiro-Wilk method yields a significance value, 0.931, 0.197, and 0.321, all above 0.05, suggesting that the residuals are normally distributed. The multicollinearity test reveals that all independent variables have Variance Inflation Factor (VIF) values below 10 and tolerance values above 0.10, indicating no serious multicollinearity issues. The Spearman test results show that the significance values 0.493, 0.191, and 0.782, exceed the 0.05 threshold, suggesting that the model is free from heteroscedasticity. Furthermore, the Durbin-Watson statistic falls within 2.282, indicating no autocorrelation in the residuals.

Table 1. Simultaneous Test Result (F Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.432	3	3.144	7.547	.006^{b}
	Residual	4.166	10	.417		
	Total	13.598	13			

Source: Data Processed

Table 2. Partial Test Result (T Test)

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	8.483	2.604		3.258	.009
	PAD	-2.874E-7	.000	-.538	-2.254	.048
	INFLASI	.251	.098	.511	2.551	.029
	TINGKAT KEMISKINAN	-.524	.327	-.351	-1.606	.139

Source: Data Processed

Table 3. Determination Coefficient Test Results (R^2)

Model	R	R Square	Adjusted R Square
1	.833[a]	.694	.602

Source: Data Processed

The results of the multiple linear regression analysis reveal that the three independent variables Regional Original Revenue, inflation, and poverty rate jointly have a significant effect on economic growth in Banten Province, as confirmed by the F-test that contains significancy 0.006. The calculated F-value exceeds the critical F-table value, and the significance level is below 0.05, indicating that the model is statistically significant as a whole. The coefficient of determination (R^2) is approximately 0.697, which implies that 69.7% of the variation in economic growth can be explained by the three independent variables included in the model, while the remaining 30.3% is influenced by other factors not included in this study.

In the partial (t-test) analysis, the Regional Original Revenue variable exhibits a negative and significant effect on economic growth with a significance value of 0.048. This finding suggests that increased Regional Original Revenue does not always translate into higher economic growth, likely due to inefficient allocation of funds or low fiscal absorption capacity at the local government level. This result is consistent with the argument that while revenue generation is essential, its economic impact depends heavily on how well it is managed and invested in productive sectors. On the other hand, inflation is found to have a positive and significant influence on economic growth with a significance value of 0.029. This supports the notion that moderate and controlled inflation may stimulate economic activity by increasing producer incentives and boosting investment, particularly in a recovering economy.

Interestingly, the poverty rate variable does not show a significant effect on economic growth with a significance value of 0.139. Although theoretically poverty reduction is linked to growth, the empirical results suggest that the benefits of economic growth in Banten Province have not been distributed equitably, with gains concentrated among middle- to upper-income groups. This condition reflects structural imbalances in income distribution and indicates that growth alone may not be sufficient to alleviate poverty without targeted social interventions.

DISCUSSION

The findings of this study offer important insights into the macroeconomic dynamics and fiscal challenges faced by Banten Province. The significant and negative effect of Regional Original Revenue on economic growth contrasts with common theoretical expectations, where local revenue is assumed to be a driver of development. This result suggests that the mere accumulation of revenue does not guarantee economic expansion unless it is followed by effective public spending, transparent budgeting, and investments in productivity-enhancing sectors. This finding aligns with I. N. Sari (2018), who emphasizes that variations in Regional Original Revenue performance across regions stem from differences in resource potential and financial management capacity.

In contrast, inflation exhibits a positive and significant relationship with economic growth in the context of Banten Province. While inflation is often viewed as a macroeconomic risk, in this study, it may reflect a demand-driven recovery and moderate price increases that stimulate production and business activity. This observation supports Keynesian economic theory, which posits that mild inflation can incentivize firms to increase output and invest more (Boediono, 1998). In a post-pandemic recovery phase, this type of inflation can serve as a signal of economic momentum. However, sustained high inflation would likely undermine consumer purchasing power and long-term stability, as warned by Barro (1995).

The lack of a significant effect of poverty on economic growth indicates structural limitations in the distribution of development gains across Banten. Despite steady economic growth, the benefits appear to be disproportionately enjoyed by urban and industrialized areas, such as Tangerang and Cilegon, while rural regions like Pandeglang and Lebak remain marginalized. This condition reflects the core of the Kuznets hypothesis, where inequality tends to rise in the early stages of development and only decreases with deeper structural reforms (Todaro, 2000). These findings underscore the critical need for inclusive development strategies that target not only economic growth but also spatial equity and social protection.

Furthermore, the limited role of poverty as a growth determinant in this study is supported by empirical research conducted in other provinces, such as by Fajri & Iriani (2022) in Bali and Suryani (2023) in Sumatra, where poverty reduction often lags behind growth due to inadequate redistribution mechanisms. The Banten case reinforces the argument that poverty alleviation must be addressed through complementary policies, including access to education, healthcare, and employment opportunities, especially in underdeveloped districts.

These results collectively imply that regional growth policies in Banten should not only prioritize revenue generation but also enhance fiscal governance, control inflation within a productive range, and address multidimensional poverty through inclusive policy frameworks. Strengthening institutional capacity at the local level is crucial for ensuring that Regional Original Revenue is translated into tangible development outcomes, while inflation management and poverty reduction must be approached holistically through both economic and social policy instruments.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that Regional Original Revenue, inflation, and poverty rate collectively influence economic growth in Banten Province. Regional Original Revenue has a significant but negative effect, suggesting that inefficient allocation and low fiscal effectiveness may hinder the growth potential of local revenue. Inflation, on the other hand, demonstrates a significant positive effect, highlighting the productive role of moderate inflation in stimulating economic activity. Meanwhile, the poverty rate does not significantly affect growth, indicating that economic gains have not been equitably distributed and have yet to substantially benefit low-income populations.

Based on these findings, it is recommended that local governments in Banten enhance the efficiency and strategic allocation of Regional Original Revenue toward productive sectors, such as infrastructure, education, and industry development. Additionally, inflation should be managed within a stable range through prudent fiscal and monetary coordination, ensuring that it encourages production without harming consumers. Finally, to address poverty, policies should go beyond economic growth metrics and incorporate human development strategies that target the root causes of deprivation in lagging districts.

Future research is encouraged to explore the mediating and moderating variables that may explain the complex relationship between fiscal performance and inclusive growth, such as governance quality, human capital investment, and institutional trust. A broader regional or cross-province comparative analysis could also enrich the understanding of structural disparities and development pathways across Indonesia.

ADVANCED RESEARCH

This study provides empirical evidence on the relationship between Regional Original Revenue, inflation, poverty, and economic growth in Banten Province, there remain several opportunities for future research. One limitation of this study is the focus on aggregate macroeconomic variables without accounting for intervening factors such as government expenditure efficiency, institutional quality, and labor market dynamics. Future research is recommended to include mediating or moderating variables such as education level, human development index (HDI), capital investment, or fiscal decentralization effectiveness, to better capture the mechanisms through which Regional Original Revenue and poverty impact growth outcomes.

Moreover, future studies could expand the scope of analysis by incorporating panel data across multiple provinces, allowing for regional comparisons and generalization of findings. Finally, qualitative approaches exploring governance quality, community participation in budget allocation, or policy implementation gaps could provide deeper contextual insights beyond what numerical data can offer.

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