CHAPTER I
INTRODUCTION

1.1. Problem Identification

One of the most important indicators in assesing economic performance is economic growth, which also includes examining the outcomes of a nation or region economic development. If more goods and services are produced than the previous year, the economy is considered to be growing. Economic growth reveals how much economic activity may increase income or community welfare over the course of a given amount of time. (Shahid, 2014). If the economy shows improvement, it can be said that a country's economy is developing.

In the economic field, economic growth is a measure of the success of a country (Yelwa et al., 2015). To measure economic growth, you can use the Gross Domestic Product (GDP) for the national scope, while for the regional scope it is the Gross Regional Domestic Product (GDP). Gross Domestic Product (GDP) and Gross Regional Domestic Product (GRDP) are the result of the value of all economic units of a country or region which is usually within a period of one year.

Indonesian economy since the economic crisis in mid 1997 made Indonesia's economic condition and employment decline. From the crisis incident, Indonesia has never experienced economic growth reaching 8% (Sumartini and Riswanto, 2017). In fact, inflation and unemployment are closely related to economic growth (Mohseni and Jouzaryan, 2016). If there is economic growth, automatically there will also be employment and the level of isolation will be better. For every one percent of economic growth, the absorbed workforce can reach 400 thousand people. An average of 2.5 million people looking for work per year, if Indonesia experiences an economic growth of around 3-4 percent, then only absorbs 1.6 million workers per year. So that the number of unemployed in Indonesia is increasing every year because the number of job seekers continues to increase every year (Dharma and Djohan, 2015).

However, the high unemployment rate and the prolonged unemployment crisis proved to have a negative impact on the economy, meaning that the unemployment crisis did not support economic growth (Alawin et al., 2016). Unemployment is categorized as one of the most serious obstacles to prevent economic progress. Kukaj (2018) explain that apart from the fact that unemployment drives livelihoods on the streets, an area where individuals are more likely to violate the law, it is a major labor loss. from a country; it produces poverty in the sense that the lower the output, the lower the income and the poorer the welfare.

The problem that is difficult to solve in every country is the problem of unemployment. Every year job seekers continue to increase along with the increase in population. Meanwhile, every 1% increase in economic growth is only able to absorb 400 thousand people (Darman, 2013).

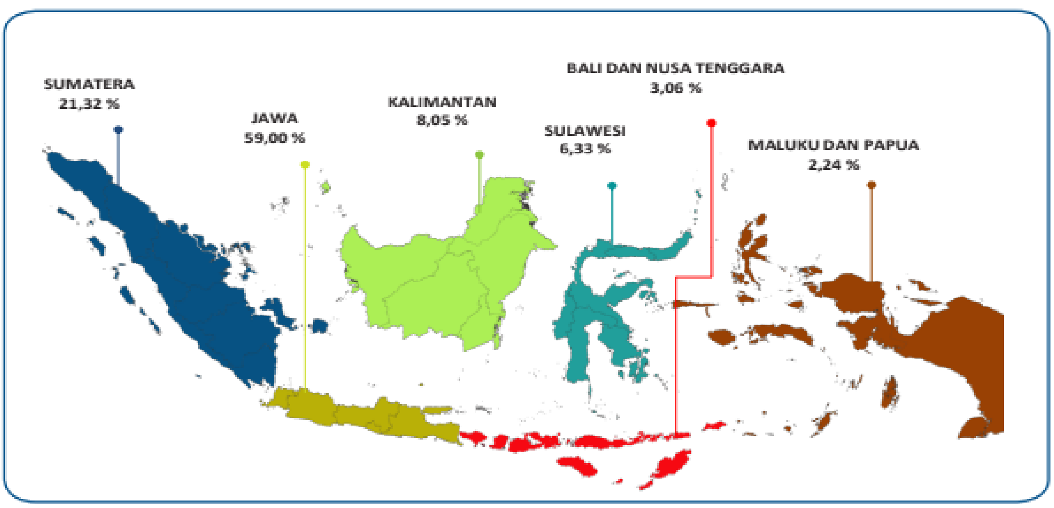
Economic growth can also be defined if the market value of goods and services experiences an inflation adjusted increase resulting from time to time (Jelilov et al., 2016). As is known, inflation is the main cause of soaring prices for goods or services. Inflationary pressures in the economy are based on the rate of currency depreciation. Inflation has caused many problems with pricing and lowering the value of currencies.

Macroeconomic variables that are important for the growth of a country are inflation and unemployment (Yelwa et al., 2015). It states that developing countries want to achieve scarcer monetary growth in a short period of time. Unemployment is caused in these countries due to inappropriate policies to achieve higher economic growth and obtain progressive technology from developed countries

The relationship regarding unemployment, economic growth and inflation has become a basic question in economics (Sukanto, 2015). Many countries around the world are finding it difficult to deal with rising unemployment and inflation which have become a worrying problem, especially in a developing country like IndonesiaUnemployment and inflation are crucial macroeconomic indicators and factors that determine economic growth and development (Sasongko and Huruta, 2019).

Indonesia as a developing country consists of 34 provinces and seven islands, namely Sumatra Island which consists of 10 provinces, Java Island 6 provinces, Nusa Tenggara Island 3 provinces, Kalimantan Island 5 provinces, Sulawesi Island 6 provinces, Maluku Islands 2 provinces and Papua Island 2 Province. province. . Having different regional characteristics so that the process to achieve the desired economic growth of each province on each island in Indonesia is strongly influenced by many factors according to the characteristics of each region.

Figure 1. 1 The Role of Islands in the Formation of National GDP in 2019



Source: Statistics Indonesia

In table 1.1, those that contribute most to Gross Domestic Product in Indonesia are the island of Java at 59.00%, the second island of Sumatra 21.32%, the third island of Kalimantam 8.05%, the fourth 6.33% and the remaining 5.30% on the other

Among the islands in Indonesia, the island of Sumatra has the most provinces, namely 10 provinces, however, the role of the island of Sumatra has a smaller contribution than the island of Java which has fewer provinces, therefore researchers are interested in discussing economic growth on the island. Sumatra with the title "The Impact of Unemployment and Inflation on Economic Growth in Sumatera Island 2010-2019".

1.2. Research Problems

Based on the description of the background, the problem formulation of this research is:

1. To determine the impact of unemployment on economic growth in Sumatera Island
2. To determine the impact of inflation on economic growth in Sumatera Island

1.3. General Research Objectives

Based on the formulation of the problem, the objectives of this study were obtained, namely:

1. Aims to determine how the impact of unemployment on economic growth in Sumatera Island
2. Aims to determine how the impact of inflation on economic growth in Sumatera Island