

Analysis of the Relationship Between Inflation, Unemployment, and Sectoral Development in Cirebon Regency: A Literature Review and Secondary Data Study (Islamic Economics)

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Submitted: 2026-02-22 ; Accepted: 2026-02-26 ; Published: 2026-02-28

Abstract

The unemployment rate is an economic indicator that mutually influences regional development, while sectoral growth demonstrates the region's ability to optimally utilize its economic potential. Using secondary data and relevant theories, such as the Phillips curve explaining the relationship between inflation and unemployment, and sectoral growth theory, the research finds that changes in inflation and the unemployment rate in Cirebon affect the development of important sectors such as trade, industry, and agriculture. The analysis shows that increased inflation reduces people's ability to purchase goods and hinders real economic activity, while high unemployment causes productivity and growth in these sectors to decline. This research emphasizes the importance of interconnected policies in maintaining stable prices, creating jobs, and strengthening leading sectors to promote sustainable regional economic development.

Keywords: *content; formatting; article Inflation; Unemployment; Sectoral Development; Regional Economy; Cirebon Regency..*

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INTRODUCTION

One of the primary objectives of national development is to improve the welfare of the population, which can be achieved by enhancing overall economic performance. These efforts are expected to create more employment opportunities and ensure an adequate quality of life for all Indonesian citizens. Reducing the poverty rate is also a key target within national development programs. Although several developing countries have experienced notable progress in economic growth—reflected in increased production and national income—there remains a significant disparity in how income is distributed between the rich and the poor. As a result, poverty levels continue to rise despite the substantial improvement in economic growth. (Agustina, 2019) .

One of the primary objectives of regional economic development is to improve the quality of life of the community and to strengthen the region's capacity to remain competitive. In this context, three macroeconomic indicators—namely inflation, unemployment, and sectoral development—play a crucial role because they are interrelated, both directly and indirectly. When inflation rises, the purchasing power of households declines and production costs increase, which can affect product prices, consumer purchasing behavior, and even corporate investment decisions.

Meanwhile, the unemployment rate reflects how effectively a region is able to absorb labor, serving as an important indicator of the local economy's performance and resilience. In addition, sectoral development illustrates how the economic structure is shaped and how each sector—such as agriculture, industry, and services—contributes to economic growth and job creation. (Agustina, 2019) .

In Cirebon Regency, changes in these three indicators present several noteworthy dynamics that merit further examination. The region's economic structure is primarily supported by agriculture, trade, small- to medium-scale manufacturing, and services. Shifts in any of these sectors can generate substantial effects on employment opportunities and price movements at the regional level. For instance, the agricultural sector—which serves as a major source of income for a significant portion of the population—is highly vulnerable to fluctuations in commodity prices, production input costs, and seasonal conditions. When food prices fluctuate, regional inflation may rise, subsequently affecting farmers' income levels. This situation can create socio-economic pressures that potentially increase both open and disguised unemployment. (BPS, 2024) .

The open unemployment rate in Cirebon Regency has shown fluctuating patterns over the past several years. Although the region has experienced positive economic growth, the increase in available jobs has not been sufficient to absorb the newly expanding labor force. Meanwhile, inflation in the area has also varied from year to year, influenced by changes in food prices, transportation costs, and price pressures on household expenditures. High inflation can weaken the purchasing power of the community, thereby reducing consumption and slowing business activities—particularly in the trade and service sectors, which rely heavily on domestic demand.(BPS, 2024) .

The open unemployment rate generally reflects the labor market's inability to absorb the workforce. In theory, the relationship between inflation and unemployment can be explained through the Phillips Curve concept, which states that there is a short-run trade-off between the two variables: when inflation increases, unemployment tends to decline, and vice versa. However, empirical studies in Indonesia indicate that this relationship does not always hold. Several studies have found that the correlation between inflation and unemployment across different provinces is weak or statistically insignificant, largely due to variations in regional structures and sectoral economic characteristics. These findings suggest that local conditions play a crucial role in shaping the interaction between these variables, making region-specific analyses essential.(Bappeda, 2016) .

The open unemployment rate In general can be understood through the Phillips Curve concept, which explains the short-run trade-off between inflation and unemployment. According to this framework, higher inflation is typically associated with lower unemployment, and vice versa. However, empirical studies in Indonesia indicate that sectoral development also plays a crucial role in understanding changes in inflation and unemployment levels.

Rapidly growing sectors—such as manufacturing and services—tend to create more employment opportunities and help maintain price stability by increasing overall production capacity. Conversely, sectors that are stagnant or inefficient may contribute to higher unemployment and generate inflationary pressures due to rising production costs. Cirebon Regency, located in the strategically important Rebanda economic corridor (Cirebon–Patimban–Kertajati), possesses significant potential for industrial and service-sector expansion. Therefore, analyzing the role of each economic sector in reducing unemployment and maintaining stable inflation is essential for regional economic planning and policy formulation (Badan Pusat Statistik Cirebon, n.d.).

RESEARCH METHODOLOGY

This study employs a descriptive quantitative approach to analyze macroeconomic phenomena, including inflation, unemployment, and sectoral development in Cirebon Regency. The quantitative approach is selected because it provides an objective representation based on numerical data that can be processed statistically. Quantitative research is grounded in the positivist paradigm, which is used to examine a specific population or sample through structured research instruments, and its data analysis relies on statistical techniques that produce generalizable findings (Sugiyono, 2021). In this context, the descriptive quantitative approach aims to present patterns and dynamics of the economic variables without conducting any manipulation or intervention in the empirical conditions.

In addition, this study employs a library research method to strengthen the theoretical foundation and enrich the interpretation of secondary data analysis. Library research involves the systematic collection of in-depth information from various credible literature sources, such as scholarly journals, academic books, previous research findings, and official institutional reports (Sari, 2020). This approach enables the researcher to critically examine relevant macroeconomic theories—including the concepts of inflation, unemployment, and sectoral development—and compare them with empirical findings derived from secondary data.

The combination of a descriptive quantitative approach and library research provides two primary benefits. First, secondary data obtained from official government publications and statistical institutions offer an accurate depiction of the region's current economic conditions. Second, theoretical analysis derived from academic literature provides an adequate interpretative framework, enabling this study to move beyond mere description toward a more analytical explanation of the interrelationships among the examined economic variables.

This research utilizes secondary time-series data covering a six-year period from 2019 to 2024. The selection of this timeframe is based on methodological considerations aimed at capturing the dynamics and changes of macroeconomic indicators in Cirebon Regency before, during, and after the COVID-19 pandemic. This period also represents the regional economic recovery phase, making it highly relevant for observing year-to-year changes in inflation, unemployment rates, and sectoral development. The time-series approach allows the researcher to identify trends, cyclical fluctuations, and potential relationships among economic components more comprehensively.

The data used in this study were collected through documentation techniques. This technique involves gathering, reviewing, and extracting information from various official publications issued by government institutions with high credibility in providing statistical data. The primary data sources include:

44 | Analysis of the Relationship Between Inflation, Unemployment, and Sectoral Development in Cirebon Regency: A Literature Review and Secondary Data Study (Islamic Economics)

1. The Central Bureau of Statistics (BPS) of Cirebon Regency, through its annual publication Cirebon Regency in Figures and various Official Statistical News (BRS) related to labor indicators and Gross Regional Domestic Product (GRDP) by business sectors, provides standardized macroeconomic data compiled in accordance with national statistical guidelines. These publications offer data that are methodologically sound and can be accounted for in terms of validity and reliability. (BPS Kabupaten Cirebon, 2024).
2. The Central Bureau of Statistics (BPS) of Cirebon City is used as the primary data source, particularly the datasets related to the Consumer Price Index (CPI) and inflation. Cirebon City is selected as the reference area because it functions as the economic hub and market center for the greater Cirebon region, including Cirebon Regency. Moreover, BPS Cirebon Regency does not maintain its own CPI database; therefore, the use of Cirebon City's inflation data serves as a common and accepted approach in regional economic research. (BPS Kota Cirebon, 2024).

Data Analysis Technique (Revised Academic English Version)

The data analysis process was conducted through three main stages. First, a descriptive trend analysis was employed to map the fluctuations in inflation, the open unemployment rate, and the growth rate of sectoral GRDP. Second, a comparative analysis was applied to identify leading sectors that contribute most significantly to the GRDP. Third, a qualitative interpretation was carried out to explain the causal relationships among the variables based on macroeconomic theories, such as the Phillips Curve or Okun's Law, supported by relevant previous literature. (Pratama, A., & Wibowo, 2022).

RESULTS AND DISCUSSION

1. Analysis of the Relationship

Unemployment refers to a condition in which individuals of working age who are capable of working do not have a job despite actively seeking employment. In economics, unemployment serves as an important indicator for assessing the economic health of a region or a country. A higher unemployment rate indicates a greater potential for emerging social and economic challenges within the community. (Shiddiq, 2024).

In general, unemployment can be categorized into several types. Frictional unemployment occurs when individuals experience a temporary gap while transitioning between jobs. Structural unemployment arises from a mismatch between workers' skills and the requirements of the labor market. Cyclical unemployment is influenced by fluctuations in economic conditions or business cycles, while seasonal unemployment typically appears in specific sectors such as agriculture or tourism, which depend on seasonal patterns. In addition, open unemployment, underemployment, and disguised unemployment are also commonly found in developing countries. (Qadrunnada, 2017).

Unemployment can arise from several economic factors, including sluggish economic growth, limited investment, and the low absorption capacity of the labor market. Social factors, such as inadequate education and limited skills, further exacerbate the situation. Its impacts are far-reaching, including decreased household income, rising poverty levels, declining national productivity, and the emergence of various social issues such as crime, social instability, and an increasing fiscal burden on the government. Therefore, unemployment must be regarded as a critical issue in economic development planning. (Puteri Rahayu & Monica Amanda, 2022).

Inflation is measured through the Consumer Price Index (CPI) or the Producer Price Index (PPI). It is commonly categorized into three levels: mild inflation (<10% per year), moderate inflation (10–30%), and hyperinflation (>50%). The main causes of inflation include excessive aggregate demand (demand-pull inflation), rising production costs (cost-push inflation), and inflationary expectations. In Indonesia, inflation is often influenced by fluctuations in food and energy prices. Bank Indonesia maintains an inflation target of approximately 2–4%. When inflation rises uncontrollably, it can lead to a decline in purchasing power, reduced investment, and broader economic instability. (BPS Kabupaten Cirebon, 2024).

a. The Relationship Between Inflation and Sectoral Development

1) Agricultural Sector

In general, inflation in Cirebon Regency in mid-2025 was driven by rising prices of red chilies, shallots, and broiler eggs. Nevertheless, inflationary pressures remained relatively contained due to deflation in several commodities such as bird's eye chilies and tomatoes during the harvest season. High inflation reduces consumers' purchasing power and hinders economic development; therefore, sectoral development in agriculture requires inflation control to maintain price stability (BPS Kabupaten Cirebon, 2024).

2) Industrial Sector

Low inflation tends to support industrial growth by reducing borrowing costs, thereby encouraging development through plant expansion and technological innovation. Conversely, high inflation increases the cost of raw materials and labor, hampering industrial development. This relationship indicates that sectoral development in industry requires effective monetary policy to maintain stable inflation, including interest rate adjustments by Bank Indonesia (Besari, 2025).

3) Services Sector

According to Acting Head of BPS Kota Cirebon, Ujang Mauludin, inflation in Cirebon Regency in 2024 increased in several service and household consumption categories, including household equipment maintenance, specialist medical fees, domestic worker wages, and education costs at academies and universities. The health sector recorded an inflation rate of 5.65%, education at 4.84%, and personal care and other services at 3.35%. The relationship between inflation and development in the services sector reflects a shift in the regional economic structure toward service-based activities, characterized by rising demand for services that consequently increases production costs (BPS Kota Cirebon, 2024).

b. The Relationship Between Unemployment and Regional Development

Poverty is a key indicator of socio-economic conditions and an important measure of the success of government development efforts. Numerous social problems emerge as poverty increases. According to the World Bank (<http://web.worldbank.org>), poverty in Indonesia declined from 16.7 percent in 2004 to 14.15 percent in 2009 (Besari, 2025).

Unemployment remains a serious macroeconomic challenge in Indonesia. Despite various policies, unemployment continues to persist, especially in urban areas and provinces experiencing high economic growth (Tirta & Putri, 2025). Theoretically, high economic growth is expected to generate employment opportunities and reduce unemployment. However, non-inclusive growth or development dominated by capital-intensive sectors may lead to jobless growth. Meanwhile, the Human Development Index (HDI) reflects human resource quality, which is expected to increase competitiveness and employment opportunities (Ritonga, 2025).

Regional development plays a crucial role in shaping the economic conditions of an area. Increased development indicates improved economic performance, which in turn reflects the population's welfare. More equal economic development between regions becomes a benchmark for evaluating regional prosperity (Tirta & Putri, 2025).

Regional development is generally defined as the process of increasing per capita income, occurring when the growth of Gross Domestic Product (GDP) exceeds population growth (Ritonga, 2025).

1) Inflation and Its Driving Factors in Cirebon Regency

- a) Regional inflation is often influenced by food supply conditions, distribution flows, and energy price changes. In Cirebon Regency, commodities that frequently contribute to inflation include rice, chilies, shallots, and chicken meat. Dependence on local commodities without strong supply chain support makes prices highly volatile (Shiddiq, 2024).
- b) Industrial expansion also contributes to rising household consumption. When increased purchasing power is not matched by adequate supply, demand-pull inflation may occur. From an Islamic economic perspective, excessive inflation must be avoided as it creates economic injustice, reduces welfare, and undermines the function of money as a stable medium of exchange (Pratama, A., & Wibowo, 2022).

2) Unemployment: Patterns, Causes, and Challenges

Unemployment in Cirebon Regency is dominated by senior high school/vocational graduates and some university graduates who are not absorbed by the industrial sector. The growing labor force is not matched by increased employment opportunities. Although the manufacturing sector absorbs many workers, it requires skills that not all job seekers possess (Puteri Rahayu & Monica Amanda, 2022).

Additionally, many workers prefer informal sectors such as petty trade or home-based services. From the Islamic economic viewpoint, persistent unemployment leads to social imbalance, obstructs equitable income distribution, and contradicts the principles of *masalah* and collective welfare (Puteri Rahayu & Monica Amanda, 2022).

3) Sectoral Development as a Driver of Regional Economy

Sectoral development in Cirebon Regency is uneven. Trade and industry sectors grow faster than agriculture, creating productivity gaps. Despite industrial and logistic expansion, many regions remain dependent on lower-income agricultural activities (Pratama, A., & Wibowo, 2022).

Such disparities affect income distribution and living standards. From a Sharia perspective, sectoral imbalances must be addressed, as ideal development promotes fairness and prevents marginalization of weaker sectors (Pratama, A., & Wibowo, 2022).

4) Linkages Between Inflation, Unemployment, and Sectoral Development

a) Inflation and Unemployment

Food price volatility increases the cost of living, especially for informal workers. Rising prices reduce purchasing power, weaken economic activity, and may increase unemployment. Although the relationship does not always align perfectly with the Phillips Curve, it remains significant in local contexts (Besari, 2025).

b) Sectoral Development and Inflation

Dependence on certain sectors causes supply instability. When agriculture is disrupted by weather or distribution issues, food inflation rises. Strengthening logistics and distribution systems can help mitigate inflation (Besari, 2025).

c) Sectoral Development and Unemployment

Fast-growing sectors such as manufacturing and logistics offer substantial employment potential. However, skill mismatches limit absorption, resulting in structural unemployment. Addressing this requires vocational training and relevant educational programs (Besari, 2025).

From an Islamic economic viewpoint, these interrelationships highlight the necessity of promoting public welfare (masalah 'ammah). Equitable development helps stabilize inflation, expand employment, and create balanced sectoral growth (Besari, 2025).

5) Analysis from an Islamic Economic Perspective

Islamic economic principles emphasize justice, collective welfare, and balance.

Relevant principles include:

- a) Economic Justice (al-'adl): Inflation caused by speculation or price manipulation is unjust and prohibited.
- b) Prohibition of Hoarding: Price instability caused by artificial scarcity must be prevented.
- c) State Responsibility for Employment: Governments must ensure fair access to employment.
- d) Efficient Resource Utilization: Balanced, sustainable sectoral development reflects responsible stewardship (Shiddiq, 2024).

6) Policy Implications

- a) Strengthening agriculture and logistics to stabilize prices and prevent food inflation.
- b) Developing vocational education aligned with industrial needs to reduce structural unemployment.
- c) Promoting balanced sectoral development to prevent income and productivity gaps.
- d) Enhancing market supervision based on Sharia principles to prevent hoarding, monopoly, and price distortion.
- e) Encouraging Sharia-based MSMEs to support local economic empowerment (Bappeda, 2016).

7) Synthesis of Discussion

The relationship between inflation, unemployment, and sectoral development in Cirebon Regency reveals a dynamic and interconnected system. Unstable inflation increases social pressure and may worsen unemployment, while sectoral imbalances amplify both issues (Shiddiq, 2024). From an Islamic economic perspective, policies should prioritize justice, balance, and public welfare. Therefore, regional economic strategies must focus on price stability, job creation, and comprehensive sectoral development (Shiddiq, 2024).

CONCLUSION

Based on the analysis of secondary data and relevant literature, this study demonstrates that economic development in Cirebon Regency is strongly influenced by the interaction between inflation, unemployment, and sectoral development. Food price fluctuations—particularly in commodities such as red chilies, shallots, and broiler eggs—have significant

48 | Analysis of the Relationship Between Inflation, Unemployment, and Sectoral Development in Cirebon Regency: A Literature Review and Secondary Data Study (Islamic Economics)

sectoral implications. Inflation in agriculture affects purchasing power, industrial inflation influences production costs, and inflation in services reflects shifting economic structure toward service-based activities.

Unemployment remains a challenge despite economic growth, especially when growth is not inclusive. Sectoral development must therefore be balanced to reduce unemployment and stabilize inflation. Given Cirebon's strategic location within the Rebana economic zone, the region possesses strong potential for industrial and service expansion. Overall, the findings indicate that the relationship between inflation and unemployment does not strictly follow the Phillips Curve, as local economic structures and regional characteristics play a substantial role.

Unemployment remains a challenge despite economic growth, with risks of jobless growth if development is not inclusive. Although regional GDP per capita growth can increase welfare, it must be supported by improved human capital through higher HDI scores.

Overall, balanced sectoral development—particularly across agriculture, industry, and services—is essential to reduce unemployment and stabilize inflation. Cirebon's strategic location within the Rebana region provides strong potential for future industrial and service sector expansion.

These findings confirm that the relationship between inflation and unemployment does not always align with the classical Phillips Curve, as local structures and regional economic conditions play a significant role.

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