The Effect of Productive Credits in Priority Economic Sector on Unemployment in South Sulawesi

1Ahmad Mujaddid, 2Marsuki, 3Anas Iswanto Anwar
1Magister of Economics Development and Planning, Hasanuddin University. Indonesia
E-mail: amujaddid@yahoo.com
2Economics and Business Faculty, Hasanuddin University. Indonesia

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Abstract: The Effect of Productive Credit in Priority Economic Sector on Unemployment in South Sulawesi

This study aimed to identify the effect of productive credit in priority economic sectors (agriculture, fisheries, mining, construction, and processing industry) on unemployment, either directly or indirectly through economic growth and inflation in South Sulawesi.

The data used is secondary data in the form of time-series data. The analysis technique used in this research is path analysis.

The results showed that agricultural credit and construction credit had a negative and significant effect on unemployment through economic growth. Processing industry credit has a positive and significant effect on unemployment through economic growth. Fishery credit and mining credit do not affect unemployment through economic growth. Agricultural credit harms unemployment through inflation. Fishery credit, mining credit, construction credit, and processing industry credit have a positive and significant effect on unemployment through inflation. Agricultural credit and mining credit have a direct negative and significant effect on unemployment. Fishery credit and construction credit have a direct positive and significant effect on unemployment, while processing industry credit does not directly affect unemployment.

I. INTRODUCTION

Development is one of the robust determinations to elevate and raise the quality of life as well as prosperity, more particularly for the people living in the respective country. Development which is taken place in various economic sectors that involve production activities aimed to elevate economic performance to be able to overcome multiple problems in economics terms,
such as poverty, unemployment, maintaining price stability, and enhancement of working opportunities. Efforts to increase economic development of Indonesia have been conducted through various ways, such as implementing monetary policy, fiscal policy, and others. Indonesia possesses goals that have to be manifested in reality, which are to achieve economic stability under the conditions of full-employment opportunities, to achieve controlled inflation, low rates of unemployment, and high-quality economic growth. Economic growth in South Sulawesi has been constantly changing every year. The pertinent changes will also affect one of the problems requires overcoming. One of these problems is that the unemployment rate is still high, the unemployment rate will inherently give negative impact, and the negative impact will not only affect individuals as a subsystem but will also affect society as a whole.

Unemployment as a complicated predicament with no glance of hope to be resolved will turn into a dark shadow for a country. High rates of unemployment will end up to increasing number of poverty and low rates of prosperity, which is a strong indication upon the failure of a state to prosper its society. Labor-related predicaments in Indonesia, including those in South Sulawesi, has now reached a quite alarming condition with a large number of unemployed individuals, relatively low income, and unequal distribution of welfare. Meanwhile, large unemployment is a huge waste of resources and potential, end up being a burden on families and society and the main source of poverty, can lead to increased social and criminal unrest, and can hinder development in the longer term.

Development hindrance will certainly jeopardize various aspects of life, that they must be addressed immediately. One of which way is through the monetary approach, particularly through the financial sector pathways. The role of the financial sector, especially the banking industry, is adamantly vital in a region's economy subsystem. Banks, with their function as intermediary institutions, play a significant role in embracing a country's economic growth through its various numbers of instruments. One of the goals of banking is collecting funds from the public and channeling these funds to the economic sector in the form of credit which will stimulate the business circle that it can contribute to the growth of a country's economy.

The economic growth that is about to be achieved is an integral part of the credit disbursement process. So that credit disbursement must perfectly on shot, being able to unravel and reduce various macroeconomic problems faced which have a wide and comprehensive impact. It is at this point that the vital role of banking institutions is needed to undergo their functions. However, banking credit is not always able to boost economic growth. The positive effect of banking credit towards the economy will only take place if the fundamental quality in a country such as physical capital (gross capital formation) or the quality of infrastructure has
been on the extend in which it is sufficient to boost productivity and competitiveness in the real sector (Augier and Soedarmono, 2011).

The banking industry possesses an important role in the economy as an intermediary institution that channels public funds into investment of productive assets which will embrace real sector productivity, capital accumulation, and aggregate output growth (Hung and Cothern, 2002). The disbursement of credit to certain economic sectors will inherently affect these sectors concerning its contribution / contribution to GDP. The government has established five priority economic sectors in the Nawacita program, however, not every sector in the Nawacita program has data related to the allocation of banking credit to this sector so that sector-credit allocation proxies are undergone in accordance with the Indonesian Banking Statistics (SPI), which is the agricultural sector, the fisheries sector, the mining sector, the construction sector (representing the infrastructure sector) and the processing industry sector (representing export-oriented products).

Credit distribution is the underlying concern of banking industry in running its intermediary functions. Thus, credit terms can never be disarmed from the core movement of Indonesian economic growth. Banking industry, in boosting the economic growth can generate more working opportunities be it through the expansion of production or other business activity as well as its influence in boosting new business units. Furthermore, banking credit can be addressed to equalize opportunities in establishing business activity such as allocation of credit availability due to development priority and economic cluster that in its turn will broaden the equalization of development outcome.

II. THEORETICAL REVIEW

Monetary system stability and banking system are a couple of aspects that are contingent as well as giving influence to each other. The stability of banking system, generally, is reflected by the proper conditions of banking and the works of banking intermediary functions in mobilizing people’s saving to be channeled, in the shape of credit or other funding, to the business circle. If this condition is sustained, the distribution process of money and monetary policy transmission mechanism in economy, that mostly take place through the banking system can run properly as well. The stability of banking system will determine the effectiveness of monetary policy celebration (Warjiyo, 2007). Central bank possesses important role in country’s economy. It principally runs under two underlying functions;

1. Maintaining the price stability and boost the growth of economy.
Monetary policy is the policy of the central bank or monetary authority in each country in the form of controlling monetary quantities. Monetary policy itself is interconnected with one another and allows trade-offs due to their implementation. Practically, the expected elevations of economic activity are the sustainability of macroeconomic stabilities which are reflected by price stability (controllable inflation), improved economic growth, and wide working opportunities.

How a policy engages into a real sector is a complicated process because the term of money is highly contingent upon nearly entire life aspects in economy. This process is pronounced as monetary policy transmission mechanism. This mechanism was commenced since the monetary authority or central bank act by empowering monetary instrument when it comes to the implementation of their monetary policy then go long way to the extends of it shows significant effect on economic activity, be it directly or gradually. This effect takes place through multiple numbers of channels, some of which are through direct channel, interest rate channel, credit channel, or asset channel. In the aspect of monetary, monetary policy can affect the development of interest rates, exchange rate, and share rate beyond society's monetary volume reserved in bank, credit that are channeled to bank for business circle, investment on share and debenture. Meanwhile, in the real sector, monetary policy can proceed to influence consumption activity, investment and production, export and import, and general cost on products and service.

Credit channel which is one of the monetary transmission channel runs through credit provided by banking sector for the households as well as company and fulfills one of the most important purpose of monetary system (Han, 2009). Appropriate operation from this channel is highly contingent with the development rate of monetary system (Gatti et al, 2012). Banks that are included as an element of developed monetary system makes the further investment and production become feasible by providing easy and cheap financing, thus will assists the creation of new working opportunities in economy (Bernanke and Blinder 1993). The increasing number of banking sector credit will inherently elevate the investment and consumption spending and because of which will increase the employment ratio (Lipsey et al, 1994). Consumer credit provided by banking sector increases household spending and stimulate the processing industry s to further production, investment, and occupation (Pagano and Pica 2012).

Bank supports the real sector by providing credit in the form of investments, production, economic growth, and working opportunities, more particularly within the age of crisis. at this particular term, the robust connection is coexisting between monetary and real sector.

Expansive monetary policy elevates the volume of available credit that the credit supply will elevate either. The rise of credit stock will result to the elevation of investment and consumption of certain company hence total production of the company will be increased and new working opportunities will be available (Mishkin 1996). Besides, the increase of micro credit
utilized to fund the small business will reduce the number of unemployment (Armendariz and Jonathan 2005) and ascend the volume as well as efficiency of those respective small businesses.

It has been observed that the unemployment will significantly elevate in number when banking sector fails to operate efficiently (Ordine and Rose 2008). Some hindrance in credit market holds negative impact economic activity and occupation in total (Wasmer and Weil 2004). For instance, that beyond the high rates of unemployment in Russia on 2002, there is a monetary crisis on 1998 and eradication of volume for the next credit (Lakstutiene at al. 2011). Meanwhile, it has been determined that all matters in credit market of European States (EU) and USA can affect economic activity and rates of occupation in total.

III. RESEARCH METHODS

Types and Source of Data

Data used for this research is the secondary data type which takes data of productive credits on priority economic sector (agriculture, fisheries, mining industry, construction, processing industry), economic growth, inflation, and rates of unemployment on 2010 until 2018 by using quarterly data in South Sulawesi into account. These data are collected within the continuous interval (time series). Data are obtained by accessing sites of Badan Pusat Statistik (BPS) and Bank Indonesia (BI).

Research Variable

Variables used in the research are productive credit on priority economic sector (agriculture, fisheries, mining industry, construction, processing industry), economic growth, inflation, and unemployment rate.

Analysis Method

Analysis method used the in the research is the path analysis. The research is aimed to observe the relations effect of independent variable on dependent variable through intermediate variable and the effect of independent variable on independent variable. The dependent variable in this study is the unemployment rate, the independent variable in this study is credit of priority economic sectors (agriculture, fisheries, mining, construction and processing industry) while the intermediate variables are inflation and economic growth. The analytical method used to exercise validity of hypothesis is Path Analysis. The model used can be formulated as follows:

\[ Y_1 = f(X_1, X_2, X_3, X_4, X_5) \]
Credits on priority economic sector affect the inflation
\[ Y_2 = f(X_1, X_2, X_3, X_4, X_5) \] \hspace{1cm} (4.2)

Credits on priority economic sector affect the rates of unemployment through economic growth and inflation affect the rates of unemployment
\[ Y_3 = f(Y_1, Y_2) \] \hspace{1cm} (4.3)

Credits on priority economic sector affect the rate of unemployment
\[ Y_3 = f(X_1, X_2, X_3, X_4, X_5) \] \hspace{1cm} (4.4)

Based on that functional equation, it can be then interpreted through several substructure equations as follows:

Substructure equation of model credit substructure on priority economic sector affect the economic growth:
\[ Y_1 = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \alpha_5 X_5 + \varepsilon_0 \]
\[ Y_1 = ln \alpha_0 + \alpha_1 ln X_1 + \alpha_2 ln X_2 + \alpha_3 ln X_3 + \alpha_4 ln X_4 + \alpha_5 ln X_5 + \varepsilon_0 \] \hspace{1cm} (4.5)

Substructure equation of credit model on priority economic sectors affects the inflation:
\[ Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_1 \]
\[ Y_2 = ln \beta_0 + \beta_1 ln X_1 + \beta_2 ln X_2 + \beta_3 ln X_3 + \beta_4 ln X_4 + \beta_5 ln X_5 + \varepsilon_1 \] \hspace{1cm} (4.6)

Substructure equation of credit on priority economic sector affects the rates of unemployment through economic growth and inflation on rates of unemployment:
\[ Y_3 = \gamma_0 + \gamma_1 Y_1 + \gamma_2 Y_2 + \gamma_3 X_3 + \varepsilon_2 \]
\[ Y_3 = \gamma_0 + \gamma_1 Y_1 + \gamma_2 Y_2 + \varepsilon_2 \] \hspace{1cm} (4.7)

Substructure equation of productive credit on priority economic sectors affects the rates of unemployment:
\[ Y_3 = \delta_0 + \delta_1 X_1 + \delta_2 X_2 + \delta_3 X_3 + \delta_4 X_4 + \delta_5 X_5 + \varepsilon_3 \]
\[ Y_3 = ln \delta_0 + \delta_1 ln X_1 + \delta_2 ln X_2 + \delta_3 ln X_3 + \delta_4 ln X_4 + \delta_5 ln X_5 + \varepsilon_3 \] \hspace{1cm} (4.8)

The effect of credit on priority economic sector (agriculture, fisheries, mining industry, construction, processing industry) on rates of unemployment through economic growth and inflation substitute the equation of 4.5 and 4.6 into the equation of 4.7 can be formulated as follows:
\[ Y_3 = ln \gamma_0 + \gamma_1 (ln \alpha_0 + \alpha_1 ln X_1 + \alpha_2 ln X_2 + \alpha_3 ln X_3 + \alpha_4 ln X_4 + \alpha_5 ln X_5 + \varepsilon_0) + \gamma_2 (ln \beta_0 + \beta_1 ln X_1 + \beta_2 ln X_2 + \beta_3 ln X_3 + \beta_4 ln X_4 + \beta_5 ln X_5 + \varepsilon_1) + \gamma_3 X_3 + \varepsilon_2 \]
\[
\begin{align*}
\ln y_0 & = \gamma_0 + \gamma_1 \ln a_0 + \gamma_1 a_1 \ln x_1 + \gamma_1 a_2 \ln x_2 + \gamma_1 a_3 \ln x_3 + \gamma_1 a_4 \ln x_4 + \gamma_1 a_5 \ln x_5 + \epsilon_0 + \gamma_2 \ln \beta_0 + \\
& \quad + \gamma_2 \beta_1 \ln x_1 + \gamma_2 \beta_2 \ln x_2 + \gamma_2 \beta_3 \ln x_3 + \gamma_2 \beta_4 \ln x_4 + \gamma_2 \beta_5 \ln x_5 + \epsilon_1 + \epsilon_2 \\
& = (\ln y_0 + \gamma_1 \ln a_0 + \gamma_2 \ln \beta_0) + (\gamma_1 a_1 \ln x_1 + \gamma_2 \beta_1 \ln x_1) + (\gamma_1 a_2 \ln x_2 + \gamma_2 \beta_2 \ln x_2) + (\gamma_1 a_3 \ln x_3 + \gamma_2 \beta_3 \ln x_3) + (\gamma_1 a_4 \ln x_4 + \gamma_2 \beta_4 \ln x_4) + (\gamma_1 a_5 \ln x_5 + \gamma_2 \beta_5 \ln x_5) + (\epsilon_0 + \epsilon_1 + \epsilon_2) \\
\end{align*}
\]

Simplified into:
\[
Y_3 = \ln \theta_0 + \theta_1 \ln x_1 + \theta_2 \ln x_2 + \theta_3 \ln x_3 + \theta_4 \ln x_4 + \theta_5 \ln x_5 + \epsilon_3 \quad \ldots (4.9)
\]

Notes:

\(X_1 = \) Credit of agricultural sector \\
\(X_2 = \) Credit of fisheries sector \\
\(X_3 = \) Credit of mining industry sector \\
\(X_4 = \) Credit of construction sector \\
\(X_5 = \) Credit of processing industry sector \\
\(Y_1 = \) Economic growth \\
\(Y_2 = \) Inflation \\
\(Y_3 = \) Unemployment rate \\
\(\alpha_0, \beta_0, \gamma_0, \theta_0 = \) Intercept \\
\(\epsilon_0, \epsilon_1, \epsilon_2, \epsilon_3 = \) Error Term \\

**Inter Variable Effect**

\(\alpha_1 = \) Credit of agricultural sector on the economic growth \\
\(\alpha_2 = \) Credit of fisheries sector on the economic growth \\
\(\alpha_3 = \) Credit of mining industry sector on the economic growth \\
\(\alpha_4 = \) Credit of construction sector on the economic growth \\
\(\alpha_5 = \) Credit of processing industry sector on the economic growth \\
\(\beta_1 = \) Credit of agricultural sector on inflation \\
\(\beta_2 = \) Credit of fisheries sector on inflation
\( \beta_3 = \text{Credit of mining industry sector on inflation} \)

\( \beta_4 = \text{Credit of construction sector on inflation} \)

\( \beta_5 = \text{Credit of processing industry sector on inflation} \)

\( \delta_1 = \text{Credit of agricultural sector on unemployment} \)

\( \delta_2 = \text{Credit of fisheris sector on the unemployment} \)

\( \delta_3 = \text{Credit of mining industry sector on the unemployment} \)

\( \delta_4 = \text{Credit of construction sector on the unemployment} \)

\( \delta_5 = \text{Credit of processing industry sector on the unemployment} \)

\( \theta_1 = \text{Credit of agricultural sector on unemployment through economic growth and inflation} \)

\( \theta_2 = \text{Credit of fisheries sector on unemployment through economic growth and inflation} \)

\( \theta_3 = \text{Credit of mining industry sector on unemployment through economic growth and inflation} \)

\( \theta_4 = \text{Credit of construction sector on unemployment through economic growth and inflation} \)

\( \theta_5 = \text{Credit of processing industry sector on unemployment through economic growth and inflation} \)

**IV. RESULT AND DISCUSSION**

<table>
<thead>
<tr>
<th>Variable Relations</th>
<th>Estimation</th>
<th>Probability</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit on Agricultural Sector --&gt; Economic growth</td>
<td>0.337</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit on Fisheries Sector --&gt; Economic Growth</td>
<td>0.064</td>
<td>0.069</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Credit on Mining Industry Sectors --&gt; Economic Growth</td>
<td>0.009</td>
<td>0.808</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Credit on Constructions Sector --&gt; Economic Growth</td>
<td>0.416</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit on Processing industry Credit --&gt; Economic Growth</td>
<td>-0.090</td>
<td>0.010</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Agricultural Sector --&gt; Inflation</td>
<td>0.019</td>
<td>0.003</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Fisheries Sector --&gt; Inflation</td>
<td>-0.014</td>
<td>0.027</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Mining Industry Sector --&gt; Inflation</td>
<td>-0.087</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Construction Sector --&gt; Inflation</td>
<td>-0.017</td>
<td>0.006</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Processing industry Sector --&gt; Inflation</td>
<td>-0.050</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
</tbody>
</table>
Source: SPSS Amos 21 (Data are processed).

Table of 4.1 indicates the results of data processing in regards to the effects of independent variable on intervening variable. The concerned independent variables are credits variable on sectors of agriculture, fisheries, mining industry, construction, and processing industry. Meanwhile, concerned intervening variables are economic growth and inflation.

The results of data processing show that productive credit variable of priority economic sector consisting of credit on agricultural sector, fishery sector, mining industry sector, construction sector, and processing industry sector. Credit for the agricultural sector and credit for the construction sector have positive and significant relations to economic growth, credit for the processing industry sector relates negatively and significantly to economic growth, while credit for the fisheries sector and credit for the mining sector is not significant when it comes to economic growth. As for inflation, credit in the agricultural sector has a positive and significant relations, while credit for the fisheries sector, credit for the mining sector, credit for the construction sector, and credit for the processing industry sector relate negatively and significantly.

As for results upon the estimation on credit of agricultural sector on economic growth is 0.337 with the value of probability in the number of 0.000 with 5% level of significance. This reflects that credit on agricultural sector have positive and significant relations to the economic growth. Every 1% elevation of agricultural sector credit will result to increase on economic growth for 0.337 percent.

Estimation results of fisheries sector on the economic growth is in 0.064 with 0.069 value of probability and 5% rate of significance, this means that fisheries credit is not directly affecting the economic growth. Every increase or decrease upon fisheries sector will not affect the increase or decrease upon economic growth.

The estimation result of mining sector credit on economic growth is 0.009 with a probability value of 0.808 and significance level, this means that mining sector credit does not affect economic growth. Any ascend or descend in credit for the mining sector will not affect the increase or decrease in economic growth.

The estimation result of construction sector credit on economic growth is 0.416 with a probability value of 0.000 and 5% significance level. This means that construction sector credit has a positive and significant effect on economic growth. Each 1 percent increase in credit in the construction sector will result 0.416 increase economic growth.

The estimation result of credit in the processing industry sector on economic growth is -0.090 with a probability value of 0.010 and 5%, this means that credit in the processing industry sector gives a negative and significant effect on economic growth. Each 1 percent increase in credit in the processing industry sector will cause -0.090 percent decline in economic growth.
The estimation result for credit of the agricultural sector on inflation is 0.019 with 0.0003 probability value and at a 5% significance level. This means that agricultural sector credit has a positive and significant effect on inflation. Every 1 percent increase in credit of the agricultural sector will cause an increase in inflation by 0.019 percent.

The estimation result for fisheries sector credit towards inflation is -0.014 with a 0.027 probability value and 5% significance level, this means that credit in the fisheries sector has a negative and significant effect on inflation. Every 1 percent increase in credit of the fisheries sector will cause a decline in inflation of -0.014 percent.

The estimation result of mining sector credit towards inflation is -0.087 with a 0.000 probability value and a 5% significance level, this means that mining sector credit has a negative and significant effect on inflation. Every 1 percent increase in credit of the mining sector will cause a decline in inflation of -0.087 percent.

The estimation result of construction sector credit towards inflation is -0.017 with a 0.006 probability value and a 5% significance level, this means that construction sector credit has a negative and significant effect on inflation. Every 1 percent increase in credit of the construction sector will cause a decline in inflation of -0.017 percent.

The estimation result of processing industry sector credit towards inflation is -0.050 with a 0.000 probability value and a 5% significance level, this means that credit of the processing industry sector have a negative and significant effect on inflation. Every 1 percent increase in credit in the processing industry sector will cause a decline in inflation of -0.050 percent.

Table 4.2 indicates the result of intervening variable data processing towards dependent variable (unemployment). Concerned intervening variables are economic growth and inflation while concerned dependent variables is unemployment.

<table>
<thead>
<tr>
<th>Variable Relations</th>
<th>Estimation</th>
<th>Probability</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth --&gt; Unemployment</td>
<td>-0.085</td>
<td>0.027</td>
<td>Significant</td>
</tr>
<tr>
<td>Inflation --&gt; Unemployment</td>
<td>-0.291</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Source: SPSS Amos 21 (Data are processed).

Results of data processing indicate that variable of economic growth and inflation provides negative and significant relations towards variable of unemployment. Estimation result of economic growth on unemployment is -0.085 with 0.027 probability value and 5% level of significance. This means that economic growth negatively and significantly affects the rates of unemployment. Every 1% increase of economic growth will result to -0.085 percent decline of unemployment.

Estimation results of inflation towards unemployment is in -0.291 with 0.000 probability value and 5% level of significance. This means that inflation gives negative and significant
relations toward the unemployment. Every 1% increase of inflation will result to -0.291 percent decline of unemployment.

**Table 4.3** indicates the result of statistical data processing between productive credits of priority economic sector on unemployment through economic growth and inflation.

<table>
<thead>
<tr>
<th>Variable Relations</th>
<th>Indirect effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit of Agricultural Sector --&gt; Economic Growth --&gt; Unemployment</td>
<td>-0.029</td>
</tr>
<tr>
<td>Credit of Fisheries Sector --&gt; Economic Growth --&gt; Unemployment</td>
<td>-</td>
</tr>
<tr>
<td>Credit of Mining Industry Sector --&gt; Economic Growth --&gt; Unemployment</td>
<td>-</td>
</tr>
<tr>
<td>Credit of Construction Sector --&gt; Economic Growth --&gt; Unemployment</td>
<td>-0.035</td>
</tr>
<tr>
<td>Credit of Processing industry Sector --&gt; Economic Growth --&gt; Unemployment</td>
<td>0.008</td>
</tr>
<tr>
<td>Credit of Agricultural Sector --&gt; Inflation --&gt; Unemployment</td>
<td>-0.006</td>
</tr>
<tr>
<td>Credit of Fisheries Sector --&gt; Inflation --&gt; Unemployment</td>
<td>0.004</td>
</tr>
<tr>
<td>Credit of Mining Industry Sector --&gt; Inflation --&gt; Unemployment</td>
<td>0.025</td>
</tr>
<tr>
<td>Credit of Construction Sector --&gt; Inflation --&gt; Unemployment</td>
<td>0.005</td>
</tr>
</tbody>
</table>

**Source:** SPSS 21 (Data are processed).

Credits of priority economic sector indicates that credit of processing industry sector holds positive and significant effect towards unemployment rates through the economic growth, credit of agricultural and construction sector hold negative and significant effect towards unemployment rates through economic growth, credits of fisheries and mining industry sector hold insignificant effect towards unemployment through the economic growth. Productive credits of priority economic sector indicates that credits of fisheries, mining industry, construction, and processing industry sectors hold positive and significant relations toward the unemployment through inflation, while credit of agriculture hold relations and insignificant effect towards unemployment through inflation.

**Table 4.4** indicates the statistical data processing between productive credits of priority economic sector towards unemployment.
Table 4.4
Direct Effect

<table>
<thead>
<tr>
<th>Variable Relations</th>
<th>Estimation</th>
<th>Probability</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit of Agricultural Sector --&gt; Unemployment</td>
<td>-0.047</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Fisheries Sector --&gt; Unemployment</td>
<td>0.213</td>
<td>0.000***</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Mining industry Sector --&gt; Unemployment</td>
<td>-0.041</td>
<td>0.001</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Construction Sector --&gt; Unemployment</td>
<td>0.035</td>
<td>0.002</td>
<td>Significant</td>
</tr>
<tr>
<td>Credit of Processing industry Sector --&gt; Unemployment</td>
<td>0.008</td>
<td>0.339</td>
<td>Not Significant</td>
</tr>
</tbody>
</table>

Source: SPSS Amos 21 (Data are processed).

Productive credits of priority economic sector indicates the result in which credits of fisheries, construction, and processing industry sectors hold positive and significant relations towards unemployment while credits of agriculture, and mining industry sector hold negative and significant relations toward unemployment.

As for the credit estimations of agricultural sector towards unemployment is -0.047 with 0.000 value of probability and 5% level of significance. This means that credit of agricultural sector shares negative and significant effect towards unemployment. Every 1% increase of agricultural sector will result to -0.047 percent decline of economic growth.

Credit estimations of fisheries sector towards economic growth is 0.213 with 0.000 values of probability and 5% level of significance. This means that credit of fisheries sector shares positive effect towards unemployment. Every 1% increase of fisheries sector will result to -0.213 percent increase of unemployment.

Credit estimations of mining industry sector towards economic growth is in -0.041 with 0.001 values of probability and 5% level of significance. This means that credit of mining industry sector shares negative effect towards economic growth. Every 1% increase of mining industry sector will result to -0.041 percent decline of unemployment.

Credit estimations of construction sector towards unemployment is in 0.035 with 0.002 values of probability and 5% level of significance. This means that credit of construction sector shares positive and significant effect towards unemployment. Every 1% increase of construction sector will result to 0.035 percent increase of unemployment.

Credit estimation of processing industry sector towards economic growth is in 0.008 with 0.339 values of probability and 5% level of significance. This means that credit of processing industry sector shares no effect towards unemployment. Every 1% increase of processing industry sector will not result to any increase or decrease of unemployment.
Discussion

Effect of Productive Credits of Priority Economic on Unemployment

Economic Growth

Sector of Agriculture

Due to the result of the conducted research, it is depicted that credit of agricultural sector shares negative and significant effect to the unemployment through economic growth. This means that the increase of agricultural sector will affect the decline of unemployment rates. This conclusion is parallel with hypothesis proclaiming that the credit of agricultural sector shares negative effect towards the unemployment through the growth of economy. This means that the increase taking place in credit of agricultural sector will alleviate the numbers of unemployment.

This fact of the matter prevails in accordance with a research conducted by Bank of Indonesia (2017) which found out that sectors of agriculture are those sector with highest acceptance of labor and expected to be the coping mechanism to prevent the high rates of unemployment predicament. This thing is valid considering that when the credit are addressed specifically for this sector, it will enhance agricultural production activity comprehensively that this sector will be keep being progressed and demanding more workers within the scope of agriculture. Direct absorption of labor will alleviate the rates of unemployment.

Sector of Fisheries

Due to the result of research, it is depicted that the credit of fisheries sector share no effect toward the unemployment rates through economic growth. This means that either increase or decrease on this sector will give no effect towards the decrease and increase of unemployment. This result is backlashing the hypothesis stating that credit of fisheries sector gives negative effect to the unemployment through the economic growth. This means that increase in fisheries sector will alleviate numbers of unemployment.

The result of this research is not in line with the research undergone by Abriyanti (2017) stating that the credit of fisheries UMKM sub-sector affect the growth of fisheries sub-sector as much as growth of fisheries sub-sector will also affect the national economic growth. The rise of banking credit will encourage investments, particularly for direct investment and will eventually enhance the economic growth in longer term. Proper growth of economy will inherently affect the absorption of labor that will affect the alleviation of unemployment rate.

Mining Industry Sector

The results of the research indicate that the sector of mining industry share no significant effect to the unemployment rates through the economic growth. This means that the increase or decrease taking place on credit of mining industry will not be affecting the increase and
decrease of unemployment rates. This result is not being in line with the hypothesis stating that the credit of mining industry sector gives negative effect to the unemployment through the growth of economy. This means that the increase in credit of Mining Industry will be alleviating rates of unemployment.

This results is not in parallel with the research conducted by David (2016) stating that the credit of mining industry sectors will be affecting the growth of economy in Nigeria from 1960 to 2012. This can be happening considering that Nigeria is among the states with most crowded activity of mining industry in the world that it is able to give significant effect for the economic growth on respective country. However, economic growth that took place is not concurrently taking place with the absorption of labor as most of the mining sector on particular area heavily relies on machineries operated by minimum workers.

**Construction Sector**

Due to the result of the conducted research, it is depicted that credit of construction sector shares negative and significant effect to the unemployment through economic growth. This means that the increase of construction sector will affect the increase of unemployment rates. This conclusion is not parallel with hypothesis proclaiming that the credit of construction sector shares negative effect towards the unemployment through the growth of economy. This means that the increase taking place in credit of agricultural sector will alleviate the numbers of unemployment.

This research is parallel with the research conducted by Nangarumba (2016) stating that there is a positive and significant relation between credit of construction sector and growth of economy. The result of research undergone by Berk and Bicen (2018) by taking the Turkey’s case as the sample was also finding the same case is that generally, it has been admitted that construction sector shares positive effect to the national economy by stimulating the economic growth. This sector holds important role in economy for it utilized inputs, due to the demands of goods and service resulted by the sub-sector interconnected either directly or indirectly. The level of economic growth that will be outputted will inherently requires massive number of labors that the absorption of labor in this particular field will also be elevated and, by then, alleviate the unemployment rates.

**Processing Industry Sector**

Due to the conducted research, it shows that the credit of processing industry sector hold positive and significant relations towards the unemployment through economic growth. It means that the increase upon credit of the respective sector will, to certain degree, affect the increasing rates of unemployment. This result is not in line with the hypothesis stating that credit of processing industry sector hold negative effect towards the unemployment through economic
growth. This means that the increase taking place in credit of the respective sector will alleviate the rates of unemployment.

The result of this research is not in line with the one conducted by Fauzi Hussin and Soo Yoke Yik (2012) stating that industry of goods and service processing holds positive relation with GDP of China and India. The occurring increase of economic growth is also affect the absorption of labor due to the economic activity in this sector. Credit addressed to this sector can be interpreted as productive credit that has to be empowered to achieve the expected economic circumstances. Besides, the created economic circumstances have to be able to affect the absorption of labor that the rates of unemployment will also be alleviated.

The Effect of Priority Economic Sector Credit towards Unemployment through Inflation

Agricultural Sector

Due to the result of the conducted research, it is depicted that credit of agricultural sector shares negative and significant effect to the unemployment through inflation. This means that the increase of agricultural sector will affect the decline of unemployment rates. This conclusion is parallel with hypothesis proclaiming that the credit of agricultural sector shares negative effect towards the unemployment through inflation. This means that the increase taking place in credit of agricultural sector will alleviate the numbers of unemployment.

This fact of the matter prevails in accordance with a research conducted by Bank of Indonesia (2007) stating that agricultural sector plays a profoundly important role in shaping the inflation as the agricultural commodities are more dynamic compared to non-agricultural commodities. The number of inflation contribution from agricultural commodities is very seasonal. For instance, on religious celebration day, contribution of inflation from agricultural commodity will be increased, while in the beginning of the year (around February to March), those contribution will be significantly reduced even to the level of below zero. Thus, when the dissemination of credit on agricultural sector is increased, it will systematically affect the rise of inflation, which is at certain point, according to the theories, will affect the decline of unemployment rates.

Fisheries Sector

Due to the conducted research, it shows that the credit of fisheries sector hold positive and significant relations towards the unemployment through inflation. It means that the increase upon credit of the respective sector will, to certain degree, affect the increasing rates of unemployment. This result is not in line with the hypothesis stating that credit of fisheries sector hold negative effect towards the unemployment through inflation. This means that the increase taking place in credit of the respective sector will alleviate the rates of unemployment.
Research conducted by Bank of Indonesia (2006) found out that inflation that was taking place in Indonesia is dominated by sector of fisheries. Inflation of the food materials is, more often than not, higher than general inflation. This high rates of inflation reflect the economic condition which is not being stable and can affect to uncertain macroeconomic condition resulting tons of problem. However, the pictures showed in Philips curve indicates that there is a negative relations between inflation and unemployment, which means that when the inflation increase, there will be decline over rates of unemployment, yet this can only take place with long-term assumption.

Mining Industry Sector

Due to the conducted research, it shows that the credit of mining industry sector hold positive and significant relations towards the unemployment through inflation. It means that the increase upon credit of the respective sector will, to certain degree, affect the increasing rates of unemployment. This result is not in line with the hypothesis stating that credit of mining industry sector hold negative effect towards the unemployment through inflation. This means that the increase taking place in credit of the respective sector will alleviate the rates of unemployment.

This result is backlashing the result of previous research conducted by Mayo (2014) that was finding out that the credit disseminated to the sector of mining industry provides massive contribution to the inflation. It has been commonly known that within the sector of mining industry there are no such uses of simple equipment instead it empowers the most sophisticated types of technology. Thus, dissemination of credit allocated to this sector is also in an absolutely high in amount. The huge amount of disseminated credit is also implying to more money disseminated in this sector, at which one point will affect the raise of inflation. High rates of inflation are surely not an ideal condition for the business atmosphere as its effect will be affecting widely and systematically. The occurrence of inflation gives important signal that this sector is being problematic, particularly at the terms of financial. However, high inflation isn’t always ended up to negative scenario, yet it can also become necessary based on theory that is depicted in Philips Curve that high rates of inflation will cause the alleviation of unemployment rates.

Construction Sector

Due to the conducted research, it shows that the credit of construction sector hold positive and significant relations towards the unemployment through inflation. It means that the increase upon credit of the respective sector will, to certain degree, affect the increasing rates of unemployment. This result is not in line with the hypothesis stating that credit of construction sector hold negative effect towards the unemployment through inflation. This means that the increase taking place in credit of the respective sector will alleviate the rates of unemployment.
Construction sector become one of the development priority to enhance the productivity and competitiveness in international market. The confinement of this infrastructure will cause the logistic cost become relatively expensive that this factor becomes the hindrance in enhancing economic activity. Based on the research conducted by OJK (2015) citing that construction sector is the most sector that is susceptible to inflation considering that most of the incomes of this sector are from Rupiah or domestic income, while its financing source comes from international loan, which is highly responsive to the inflation. Inflation becoming one of macroeconomic stability indicator, for most of the time, gains lots of concern as this problem of inflation affects several things, one of which is the rates of unemployment.

Processing Industry Sector

Due to the conducted research, it shows that the credit of processing industry sector hold positive and significant relations towards the unemployment through inflation. It means that the increase upon credit of the respective sector will, to certain degree, affect the increasing rates of unemployment. This result is not in line with the hypothesis stating that credit of processing industry sector hold negative effect towards the unemployment through inflation. This means that the increase taking place in credit of the respective sector will alleviate the rates of unemployment.

The declining number of unemployment rates caused by dissemination of credit through inflation will be easier to understand as processing industry sector is a labor-intensive industry that the elevation of this sector will inherently be translated as high absorption of labor, parallel to alleviation of unemployment.

However, by deeper understanding, the erosion of economic sector performance can't be unattached from wrong-direction accumulation of development upon multiple strategic economic sectors. The strength of consumption sector in Indonesian economy that is not accompanied by the growth of adequate industrial sector makes the portion of capital-goods importing as well as raw and complementary materials becomes very massive. Various self-sufficiency targets for the main agricultural products that have minimum achievements make the increasing imports of consumer goods become inevitable. Besides, bank credit also prone to massively disseminated to fund the non-tradable sector, and only trickles down to the tradable sectors. Until December 2018, the proportion of credit to the non-tradable sector was 85 percent, while the tradable sector was merely 15 percent. In the sector of investments, investment growth which tends to keep growing at the current age of time is expected to compensate for the erosion of the exports contribution so that in aggregate, the national economy can continue to grow on target. However, if the scope of economic growth is the creation of equitable people's welfare, then the policies of investment sectors must also be designated to put national interests as the top priority, so that the enormous economic potential
in Indonesia is not merely ended up as a paradise for foreign investors. In terms of investment, the government must strive to encourage the enlargement of domestic investment (Domestic Investment / PMDN) as the main support for the national economy. Foreign investment / PMA are indeed a necessity, but it should not be that its presence will marginalize domestic investment. The supporting capacity of the investment sector for economic performance will be further accelerated if the acceleration of infrastructure development can be implemented immediately. Despite, the government's sluggishness in realizing infrastructure projects can ultimately perpetuate economic inequality and disparity in growth among regions. The development cluster, which is still concentrated in Java and Sumatra, needs to be shifted to Kalimantan, Sulawesi, Papua, Bali, Nusa Tenggara, and other areas that have been lagging behind in development.

**The Effect of Priority Economic Sector Productive Credits on Unemployment**

**Agricultural Credit**

Due to the result of research, it shows that the agricultural credit holds negative and significant effect to the unemployment. This means that the raise of agricultural credit affects the declining number of unemployment. The result of the research is parallel with the hypothesis stating that the agricultural credit negatively affects the unemployment. This means that the increase of agricultural credit will decline the numbers of unemployment.

The results of this study are parallel with the research conducted by Adegboyega (2020) which observed that the relationship of credit distribution in the agricultural sector for several periods has been inadequate, thus hampering the creation of working opportunities and contributing to the increase of unemployment in Nigeria. In another perspective, if the distribution of credit to the agricultural sector is adequate, it will have a positive effect on the creation of working opportunities, which in other words, will significantly contribute to the declining numbers of the unemployment rate.

**Fisheries Credit**

Due to the result of research, it shows that the fisheries credit holds negative and significant effect to the unemployment. This means that the raise of fisheries credit affects the increasing number of unemployment. The result of the research is parallel with the hypothesis stating that the fisheries credit negatively affects the unemployment. This means that the increase of fisheries credit will decline the numbers of unemployment.

Valentina (2018) in her research that fishermen in Indonesia generally live within the line of poverty. Ironically, fisheries management and processing are required to be able to provide maximum benefits to improve the prosperity of the societies. The definition of “people's welfare” is primarily to improve the standard of living of traditional fishermen. Fishermen are inherently
attached to several types of characterization, in which they are perceived as weak, indifferent, inefficient, and unable to plan for the future. These stereotypes influence various government policies on fishermen communities. Therefore, it is important to analyze financing policies for traditional fishermen. The research method used is the normative juridical method. There are several conclusions. First, the interest of banking institutions to provide credit facilities to traditional fishermen is still on minimum rates. Based on the prevailing laws and regulations, the provision of credit facilities to traditional fishermen can be classified as a high-risk credit facility. Second, to enhance the interest of banking institutions, the government plays an important role in making supportive regulations for the creation of convenience and security for banks in disseminating credit to fishermen groups.

Capital infuse for fishermen is an important thing. In behalf of developing traditional fishermen, the Government of Kenya runs some efforts aimed to increase the performance of fishermen and developing marketing strategies. With the increase in the number of catches and the development of a marketing strategy, the prosperity of local fishermen will also increase along with the increase in income. In 1970-1974, the Government of Kenya spent £ 10,000 in financial assistance for fishermen who works near the shore. The provision of these funds resulted in an increase in the State of Kenya’s income in near-shore fishing to £ 224,000. The increase in state revenue in the fisheries sector has prompted the Government of Kenya to spend £ 1.6 million for regular funding for fishermen and £ 1 million for fisher development (Hoorweg, 2009). This shows that the role of the government in the sector of funding is important in increasing the catch and prosperities of fishermen.

Mining Industry Credit

Due to the result of research, it shows that the mining industry credit holds negative and significant effect to the unemployment. This means that the raise of mining industry credit affects the increasing number of unemployment. The result of the research is parallel with the hypothesis stating that the mining industry credit negatively affects the unemployment. This means that the increase of mining industry credit will decline the numbers of unemployment.

Research conducted by Lestari (2016) shows that the disbursement of funds in the mining sector will affect the increase of working opportunities, which means reducing the unemployment rate. Given that the mining and quarrying sector is still a mainstay for Indonesia in supporting economic growth and absorption employment. This can also be overseen from the high interest in channeling funds and investment in the mining and quarrying sector. This condition occurs due to the abundance of natural resources owned by Indonesia, such as coal commodity. It is expected that an increase in investment, both domestic and international, will increase economic growth and employment.
Working opportunities are the number of workers that can be absorbed by all business fields in an area. The number of people who work depends on the number of public demands for labor, while the amount of demand is influenced by, among others, the level and type of economic activity in various sectors. This means that the higher the economic activity, the higher the labor absorption will be. Likewise, on the contrary, the lower the economic activity, the lower the labor absorption will be.

**Construction Credit**

Due to the result of research, it shows that the construction credit holds negative and significant effect to the unemployment. This means that the raise of construction credit affects the decreasing number of unemployment. The result of the research is parallel with the hypothesis stating that the construction credit negatively affects the unemployment. This means that the increase of mining industry credit will decline the numbers of unemployment.

This research is in line with research conducted by Nangarumba (2016) stating that there is a positive and significant relation between construction sector credit and economic growth. The results of research conducted by Berk and Bicen (2018) by taking a case study in Turkey, in the same way coming out with similar results, in which it has been generally recognized that the construction sector has a positive influence on the national economy by stimulating economic growth. This sector has a significantly important role in the economy in terms of the inputs it empowers, since the demand for goods and services produced by sub-sectors is directly or indirectly connected. The high rates of economic growth will inherently require a larger workforce so that the absorption of labor in the construction industry sector will also increase and reduce the unemployment rate.

**Processing Industry Credit**

Due to the result of research, it shows that the processing industry credit holds positive and significant effect to the unemployment. This means that the raise of processing industry credit affects the increasing number of unemployment. The result of the research is not parallel with the hypothesis stating that the processing industry credit negatively affects the unemployment. This means that the increase of processing industry credit will decline the numbers of unemployment.

This is not in line with research conducted by Anwar (2013) which examined the causal relationship of credit dissemination with working opportunities in tiny industries, which found that the effect of credit disbursement on small industries was still extremely microscopic. The processing industry sector is, more often than not, seen as the driving force or push for the regional economy. Parallel to developing countries, Indonesia has abundant numbers natural resources and each region has a variety of natural resource advantages. On the other hand, Indonesia has a very high population or workforce. The processing industry sector becomes a
medium to utilize abundant natural resources, which in turn will be able to absorb a large workforce.

The era of economic globalization along with rapid technological developments has ended up in intense competition and rapid changes in the business environment. Currently, processing industry products in the country, once they leave the factory, compete directly with foreign products, and the business world must succumb to the fact that the rapid development of technology has resulted in the rapid obsolescence of production facilities, shorter product shelf life, and lower profit margins. In carrying out the industrial development process, this situation is a reality that must be encountered and dealt with, and have to become a determining consideration in any policies to be issued, and at the same time constitutes a new paradigm that must be faced by any country in carrying out the industrialization process of its country. Based on this premise, the policies in Indonesia's industrial development must be able to answer the challenges of global economic globalization and be able to anticipate the rapid development of environmental changes. International competition is a new perspective for all countries that the focus of industrial development strategies in the near future is to build a sustainable competitiveness for industrial sector either in the domestic or international markets.

V. CONCLUSION

According to the results of research which shows that credit distribution to priority economic sectors gives various responses to unemployment through economic growth and inflation. So that the government, in this case, Bank Indonesia, must create regulations to encourage commercial banks to channel credit and finance economic sectors that are considered productive to encourage economic growth and create new jobs, thereby reducing the unemployment rate. The government is also expected to focus its attention on lending to the economic sector which has an effect of increasing inflation. Besides, there is a need for socialization by the banking sector regarding the process of channeling credit to each priority economic sector so that the benefits are getting better, as has been done by various countries.

References


