ABSTRACT

Private Investment and Regional Economic Growth: The Moderating Role of Unemployment in Central Java

This study investigates how unemployment moderates or condition the relationship between private investment and regional economic growth across 35 districts and cities in Central Java, Indonesia. While private capital is widely recognized as a key engine of development, its effectiveness varies due to differences in labor market conditions, institutional quality, and absorptive capacity. Using panel data from 2010–2023 and applying fixed-effects regression models, the study compares regions with high and low unemployment to evaluate whether labor market performance conditions the productivity of private investment.

The results show that private investment has a statistically significant positive impact on Gross Regional Domestic Product (GRDP) in both groups. However, although the investment coefficient is slightly higher in high-unemployment districts, the explanatory power (R^2) and stability of the relationship are greater in low-unemployment regions, indicating more predictable and efficient investment absorption. Robustness checks controlling for population and public capital expenditure confirm that this contextual difference persists.

The findings suggest that regional development strategies should not merely increase investment flows but also strengthen labor market absorption, human capital, and institutional readiness. By highlighting the moderating role of unemployment, this study contributes to understanding how structural labor market frictions influence investment effectiveness and provides policy guidance for designing place-sensitive and inclusive growth strategies.