

The Effect of Inflation on Economic Growth in Indonesia

Ismatul Khasanah¹, Hendri Hermawan Adinugraha², Ade Gunawan³
Ria Anisatus Sholihah⁴, Gita Dewi Surya⁵
Universitas Islam Negeri K.H Abdurrahman Wahid¹²³⁴, Meiban Technologis⁵.
Email: khasanahismatul14@gmail.com¹

ABSTRAK: Penelitian ini bertujuan untuk mengetahui dampak inflasi terhadap pertumbuhan ekonomi di Indonesia selama enam tahun terakhir. Analisis objek penelitian menggunakan metode kualitatif. Hal ini dikarenakan data penelitian disajikan dalam bentuk deskriptif dengan mengkaji fenomena inflasi yang terjadi di Indonesia, faktor-faktor yang mempengaruhi serta dampak inflasi terhadap pertumbuhan ekonomi di Indonesia. Teori inflasi dan pertumbuhan ekonomi digunakan untuk menganalisis data yang dikumpulkan melalui teknik penelitian kepustakaan kemudian menganalisis data tersebut dengan menggunakan tiga tahapan yaitu reduksi data, penyajian data dan penarikan kesimpulan. Hasil dan pembahasan menunjukkan bahwa inflasi di Indonesia disebabkan oleh beberapa faktor, salah satunya adalah kelebihan jumlah uang beredar dibandingkan dengan permintaan masyarakat. Peningkatan jumlah uang beredar menunjukkan potensi penurunan nilai uang dan peningkatan inflasi. Inflasi yang rendah dan stabil dapat mendorong pertumbuhan ekonomi, mengurangi utang dan mendorong investasi. Kenaikan harga yang tidak terlalu tinggi dan tidak stabil akan membuat para pengusaha kurang termotivasi untuk meningkatkan output. Hal ini akan berdampak pada nilai PDB dan mempengaruhi pertumbuhan ekonomi suatu negara.

Kata kunci: Pengaruh, Inflasi, Faktor Penyebab, dan Pertumbuhan Ekonomi

ABSTRACT: This study aims to determine the impact of inflation on economic growth in Indonesia over the past six years. Analysis of the object of research using qualitative methods. This is because the research data is presented in descriptive form by examining the phenomenon of inflation that occurs in Indonesia, the factors that influence and the impact of inflation on economic growth in Indonesia. The theory of inflation and economic growth is used to analyze the data collected through library research techniques and then analyze the data using three stages, namely data reduction, data presentation and conclusion drawing. The results and discussion show that inflation in Indonesia is caused by several factors, one of which is the excess money supply compared to public demand. An increase in the money supply indicates a potential decline in the value of money and an increase in inflation. Low and stable inflation can encourage economic growth, reduce debt and encourage investment. A modest and unstable increase in prices will make entrepreneurs less motivated to increase output. This will impact the value of GDP and affect a country's economic growth.

Keywords: Influence, Inflation, Causal Factors, and Economic Growth

1. INTRODUCTION

In recent years, inflation is not new to this country, as it is one of the classic problems of the economy, which affects people's real income and can negatively impact the macroeconomy as a whole. Inflation is a reference in macroeconomics that is used to review or measure the stability of a country's economy. This shows that inflation is a very important indicator to maintain economic stability.

From an economic point of view, inflation is defined as a phenomenon of a country's monetary policy where the rise and fall of inflation often causes economic instability. Data related to the increase in prices of basic necessities is recorded by the Central Bureau of Statistics (BPS). The inflation indicator created by these experts is called the Consumer Price Index (CPI).

The currency crisis that occurred in mid-1997 caused skyrocketing inflation in Indonesia, which resulted in a decline in people's purchasing power and a decline in

economic growth. These developments made inflation a strategic indicator to pull the national economy out of a prolonged recession (Mayasari & Mahinshapuri, 2022).

Economic growth is a term to indicate the expansion of the production capacity of an economy, which is the result of the production process formed by various economic sectors, so that it can be seen the size of the progress or decline of the economic sector within a certain period of time (Todaro, 2011). Economic growth is a measure of a country's success in development, where the results can be appreciated by the community (Ekonomi et al., 2014).

A country's macro and microeconomics help determine whether a country is considered successful in solving its economic problems. If inflation increases, the standard of living will be disrupted so that people's purchasing power weakens. One of the macroeconomic indicators used to see or measure the stability of a country's economy is the level of public welfare.

Previous research conducted by Febi M. and Yaqutta F. Provides an Inflationary pressures not only affect consumers but also affect producers, resulting in fluctuations in economic growth. Inflation for consumers results in a decline in real value or purchasing power. While on the producer side, the inflation rate can lead to reduced profits due to increased production costs. When the inflation rate increases, causing interest rates to rise, investors borrow capital from banks to expand their investment scope. This leads to rising unemployment, declining exports and state revenues, which in turn affects economic growth (Mayasari & Mahinshapuri, 2022).

Based on research conducted (Datta & Kumar, 2011) Mubarik (2005) argues that there is a significant short-run relationship between inflation and economic growth, but not in the long run. Mubarik (2005) found that low and stable inflation promotes economic growth and vice versa. (Umaru & Zubairu, 2012) The results show that all variables in the unit root model are stationary and the causality results show that GDP is caused by inflation and does not cause GDP inflation. The results also show that inflation has a positive impact on economic growth by boosting productivity and production levels as well as changes in total factor productivity. (Mallik & A., 2001) found two results: first, the relationship between inflation and economic growth is positive and statistically significant for Bangladesh, Pakistan, India and Sri Lanka. Second, the sensitivity of growth to changes in the inflation rate is lower than the sensitivity of inflation to changes in the growth rate. The policy implication of these results is that while moderate inflation will stimulate economic growth, faster economic growth will absorb inflation and cause the economy to overheat.

Meanwhile, in research (Ningsih & Andiny, 2018) stated that inflation is one of the important indicators of the economy, so the growth rate must always be kept at a low and stable level so as not to cause macroeconomic diseases that have an impact on economic instability. Inflation has both positive and negative impacts on the economy. If a country's economy is in recession, Bank Indonesia can pursue an expansionary monetary policy by lowering interest rates. High and volatile inflation reflects economic instability that leads to a general and continuous increase in the prices of goods and services and a high level of poverty in Indonesia. Because the higher the inflation rate, the more people who were initially able to fulfill their daily needs due to the high prices of goods and services are no longer able to fulfill their needs, leading to poverty.

The government needs to strengthen policy coordination to maintain macroeconomic stability and boost national economic growth. It is also expected to improve national food security by accelerating the implementation of food barn programs and expanding inter-regional cooperation. Low and stable inflation can boost economic growth, reduce debt and encourage investment. Addressing inflation can also be done through fiscal, monetary, non-fiscal and non-monetary policies.

Bank Indonesia and the government remain committed to achieving the predetermined inflation target through policy coordination that is aligned with the inflation target. Efforts to control inflation towards low and stable inflation include shaping and directing people's inflation expectations so that they can be contained in the predetermined inflation target. Prior to Law Number 23 Year 1999 on Bank Indonesia, the inflation target was set by Bank Indonesia. After this law, to enhance the reputation of Bank Indonesia, the inflation target was set by the government. Bank Indonesia's monetary policy aims to manage price pressures arising from aggregate demand (demand management) relative to supply conditions. In this case, monetary policy is not intended to respond to rising inflation caused by temporary shocks that will disappear over time (Inflasi & Dalam, 2021).

This study focuses on the effect of inflation on economic growth in Indonesia based on data taken from the Central Statistics Agency (BPS). In addition, the causes of inflation will be known after researching from various sources. Seeing the condition of economic growth in Indonesia, which is not increasing well, results in a question mark, what causes this. One of the factors that affect economic growth is inflation. In this study, it is expected to find out how much influence inflation has on economic growth.

2. METHOD

1. Type of Research

In this journal, the author uses qualitative research methods. Qualitative research is a series of data filtering processes from the data collected to study and understand a phenomenon. In this method, the explanation of the phenomenon will be more descriptive. explains that scientific research aims to understand a phenomenon in a natural social context, by prioritizing the process of intensive communicative interaction of researchers. Meanwhile, Saryono (2010) in the journal (Pahleviannur, 2022) explains that qualitative research is used to investigate, explore, describe and explain social characteristics/conditions that cannot be assessed as quantitative data. (Bodgan & Taylor, 1975) states that the qualitative research process produces descriptive data in verbal or written form from people and observed behavior. For example, silent or laughing behavior, how to analyze it using quantitative data, it should be tested by taking oral data, analyzing it, and so on.

2. Data Source

The data source of this study uses secondary data in the form of publication reports on inflation and economic growth in Indonesia for the period 2018-2023. Secondary data is data collected by researchers from existing sources. Secondary data can be in the form of company documents such as time records, salaries, financial reports published by the company, financial reports published by the company, government reports, data obtained from magazines, and others (Panorama & Muhajirin, 2017).

3. Data Collection Method

Data is obtained through literature studies. Literature Study / Literature Study is a data collection technique by conducting a study of books, literature, records, and reports related to the problem at hand (Moh.Nasir, 1983). The data collection technique used in this research is document analysis. So, the author will look for several documents or literature such as journals and books to become sources of research data (Adlini et al., 2022).

4. Data Analysis Method

The qualitative data analysis technique in this study is a technique according to the opinion of Miles and Huberman. According to (Miles et al., 2014),

the qualitative data analysis process is carried out in three stages, namely: data reduction, data presentation, conclusion drawing. The data obtained is sorted first by classifying, directing and discarding unnecessary data, then processed to be presented in descriptive form which can later be used to draw final conclusions.

3. RESULT AND DISCUSSION

3.1 Inflation Phenomenon in Indonesia

Inflation is a phenomenon in which general prices rise continuously over a period of time. In this context, the term "general price increase" refers to a situation where most goods and services are rising in price, not just one or two items. Inflation refers to a change in the value of a country's currency, which tends to decrease compared to the goods and services that the country can buy. In comparison, deflation refers to a general decrease in prices, which is basically the opposite of inflation (Pujadi, 2022).

Inflation has also been an economic problem in Indonesia for a long time where the inflation phenomenon is strongly influenced by a number of factors originating from domestic and external variables. Historically, the level and volatility of inflation in Indonesia is higher than inflation in other developing countries. The inflation phenomenon in Indonesia affects the country's economic growth.

3.2 Factor Causing Inflation in Indonesia

From a monetary point of view, inflation is generally caused by an excess of money supply compared to public demand. In the Indonesian context, Bank Indonesia classifies the money supply (JUB) into narrow (M1) and broad (M2). M1 includes cash and current accounts, while M2 includes currency and securities. An increase in the money supply indicates a potential decline in the value of money and an increase in inflation. In addition to the money supply factor, the exchange rate also plays a role in inflation. The closeness of the exchange rate to inflation is seen when the domestic currency strengthens, then the price of imported goods tends to decrease and people's purchasing power increases. Conversely, devaluation of the national currency will pose an economic risk. Interest rates are also one of the factors that increase inflation, an increase in interest rates tends to affect the increase in inflation in a country (Simon, 2023).

A country's inflation is affected by many different factors that influence it. Inflation which refers to the decline in the value of a country's currency against commodities such as gold or foreign currency must be kept to a minimum. This economic phenomenon even in the Indonesian context causes a general increase in the prices of goods and services. The impact is to encourage people to focus more on work than investment, as inflation has negative impacts such as lower production efficiency and productivity, increased capital costs and uncertainty of future costs and income (Salam, 2020). Inflation can affect people's purchasing power and the stability of a country's economy. Therefore, keeping inflation low is an important aspect of economic policy.

Controlling the rate and level of inflation plays an important role in macroeconomics. The success of inflation control is very important because the impact of inflation will affect people's welfare, especially when inflation is high and unstable, causing people's welfare to be disrupted (Martanto et al., 2021). Inflation needs to be controlled by both the central bank and the government. The central bank and the government must work together in order to suppress the inflation rate to be low and stable, in order to create equitable public welfare.

3.3 Economic Growth in Indonesia

For a country, economic growth is one of the goals that must be achieved every year. A country's economic growth rate will be a measure of its success. This is also a priority for Indonesia. According to M. Suparko and Maria R. Suparko quoted by (Salim et al., 2021) there are several kinds of tools that can be used to measure economic growth, namely:

1. **Gross Domestic Product**
GDP is the sum of final goods and services produced at market prices. The weakness of GDP as a measure of economic growth is that it is global and does not reflect the welfare of society.
2. **GDP per Capita or Per Capita Income**
GDP per capita is a more appropriate measure as it takes into account the total population. Therefore, the level of income per capita can be determined by dividing GDP by population.
3. **Income Per Hour Worked**
A country can be considered more developed than other countries if it has a higher income or hourly wage compared to other countries' hourly wages for the same type of work.

According to Lyncolyn quoted by (Halim, 2020), Economic growth can be understood as a country's efforts to achieve a GDP level of 5-7% in one year over a relatively long period of time. If a country's GDP can reach this figure, it can be said that the country's economic growth rate is good. To determine whether or not a country's economic growth is good, it is necessary to use certain aspects for measurement. There are differences between developing and developed countries in measuring economic growth. In developing countries, GDP is often used, while in developed countries, GNP is often used.

According to Bustami quoted (Purba, 2020), One of the efforts that the Government can make to boost economic growth is to restore export activities. In fact, it has become an obligation to support a country's economic growth. Through exports, a country's total production capacity can be increased. In addition, foreign exchange will come from export activities carried out, where the foreign exchange can be used as capital to import raw materials and capital goods so that it will increase added value in a country.

3.4 Effect of Inflation on Economic Growth

Inflation and economic growth are two things that are related to each other (Sarbaini & Nazaruddin, 2023), Keeping inflation low and stable will boost economic growth. Indeed, with low and stable inflation, economic activity will run well. Low and stable inflation will encourage entrepreneurs to increase their production (Simanungkalit, 2020). The increase in prices caused by inflation will encourage entrepreneurs to increase production because the profits they expect will be greater. An increase in production means an increase in the value of gross domestic product (GDP) which means economic growth.

An increase in prices will encourage entrepreneurs to increase output. However, if prices rise or inflation is too high, it will have a negative impact on the economy. Excessive price increases or inflation will cause people who were previously able to fulfill their daily needs to become unable to fulfill their previous needs due to price increases (Salim et al., 2021). The impact of this will create economic instability and result in decreased economic growth (Wiriani & Mukarramah, 2020).

Inflation that is too low and unstable can also have a negative impact on economic growth (Suriyani & Sudiarta, 2018). A modest and unstable price increase will make entrepreneurs less motivated to increase output. This will impact the value of GDP and affect a country's economic growth.

Table-1: Annual Indonesian Inflation Rate (Percentage)

Year	2018	2019	2020	2021	2022	2023
Persentasi	3,13	2,72	1,68	1,87	5,51	2,61

Source : www.bps.go.id, 2023

Table-2: Annual Indonesian Economic Growth (Percentage)

Year	2018	2019	2020	2021	2022	2023
Persentasi	5,17	5,02	-2,07	3,7	5,31	5,05

Source : www.tradingeconomics.com, 2023

From the data presented, it can be seen that the Indonesian economy from 2018-2019 tends to stabilize at around 3% and economic growth is in line with stabilizing at around 5%. However, entering 2020 where the Covid-19 outbreak occurred, Indonesia's inflation was immediately unstable with a sudden drop to 1.68. This also had an impact on Indonesia's economic growth, so that Indonesia's economic growth fell to -2.07%. In 2021, Indonesia's economic growth began to improve with a figure of 3.7% and Indonesia's inflation also stabilized in the range of 1.5-2%. In 2022, after the Covid-19 pandemic subsided, the economy returned to normal and Indonesia's economic growth grew to 5.31 and inflation rose to 5.51. Furthermore, in 2023 the economic level is still good in the range of 5.05% even though this figure has decreased from the previous year by 0.26%, then for inflation in 2023 it has decreased drastically from 5.51% to 2.61%, which is calculated to have decreased by 2.9%.

4. CONCLUSION

Based on various analyses and observations, it is known that inflation is not always detrimental to a country; however, it depends on the country's inflation rate. If inflation is low and stable, it will have a positive impact on a country as it shows good economic health. Price stability will occur when inflation is low. But if inflation is too high or tends to be unstable, it will have many negative impacts. Prices become unstable and increase rapidly when inflation is high. This can lead to a decline in people's purchasing power and a decline in their quality of life. In addition, high inflation will hamper the country's economic growth.

In Indonesia itself, the inflation rate and economic growth over the past 6 years have not always been stable. Inflation fell to its lowest level in 2020, the year of the Covid outbreak. Inflation decreased because more and more people are using digital money or cryptocurrencies to make purchases, which has an impact on reducing the amount of money in circulation in society. Inflation greatly affects economic growth in Indonesia, a low inflation rate will help drive good economic growth.

5. REFERENCE

- Adlini, M. N., Dinda, A. H., Yulinda, S., Chotimah, O., & Merliyana, S. J. (2022). Metode Penelitian Kualitatif Studi Pustaka. *Edumaspul: Jurnal Pendidikan*, 6(1), 974–980. <https://doi.org/10.33487/edumaspul.v6i1.3394>
- Bodgan, & Taylor. (1975). *Metodologi Penelitian Kualitatif*. Remadja Karya.

- Datta, K., & Kumar, C. (2011). Relationship between Inflation and Economic Growth in Malaysia. *International Conference on Economics and Finance Research IPEDR*, 4.
- Ekonomi, F., Sriwijaya, U., Palembang-indralaya, J., Ilir, K. O., & Selatan, P. S. (2014). *Ekonomi pembangunan*. 12(1), 42–54.
- Halim, A. (2020). Pengaruh Pertumbuhan Usaha Mikro, Kecil Dan Menengah Terhadap Pertumbuhan Ekonomi Kabupaten Mamuju. *Jurnal Ilmiah Ekonomi Pembangunan*, 1(2), 157–172. <https://stiemmamuju.e-journal.id/GJIEP/article/view/39>
- Inflasi, P., & Dalam, D. A. N. F. (2021). *Peraturan Menteri Keuangan (PMK). Berdasarkan Peraturan Menteri Keuangan Nomor : 6*, 199–210.
- Mallik, G., & A., C. (2001). Inflation and Economic Growth: Evidence from Four South American Countries. *Asia-Pasific Development Journal*, 11.
- Martanto, B., Tan, S., & Syurya Hidayat, M. (2021). Analisis tingkat inflasi di Indonesia Tahun 1998-2020 (pendekatan error correction model). *Jurnal Paradigma Ekonomika*, 16(3), 619–632. <https://doi.org/10.22437/jpe.v16i3.14360>
- Mayasari, F., & Mahinshapuri, Y. F. (2022). PENGARUH INFLASI TERHADAP PERTUMBUHAN EKONOMI DI INDONESIA. *JEB17 : Jurnal Ekonomi Dan Bisnis*, 7(02). <https://doi.org/10.30996/jeb17.v7i02.7362>
- Miles, M. ., Huberman, A. ., & Saldana, J. (2014). *Qualitative Data Analysis, A Methods Sourcebook* (3rd ed.). Sage Publications.
- Moh.Nasir. (1983). Adoc.Pub_Moh-Nasir-Metode-Penelitian-Ghalia-Indonesia-Jakar. *Metode Penelitian*, 58–68.
- Ningsih, D., & Andiny, P. (2018). Pengaruh Inflasi Dan Pertumbuhan Ekonomi Terhadap Kemiskinan Di Indonesia. *Jurnal Samudra Ekonomika*, 2(1), 53–61.
- Pahleviannur, M. R. (2022). Metodologi Penelitian Kualitatif. In Metodologi Penelitian Kualitatif. In *Rake Sarasin* (Issue Maret). <https://scholar.google.com/citations?user=O-B3eJYAAAAJ&hl=en>
- Panorama, M., & Muhajirin. (2017). *Pendekatan Praktis Metode Kualitatif dan Kuantitati*. Idea Press Yogyakarta.
- Pujadi, A. (2022). INFLASI: TEORI DAN KEBIJAKAN. *Jurnal Manajemen Diversitas*, 2, 73–77.
- Purba, B. (2020). Analisis Tentang Pertumbuhan Ekonomi Indonesia Periode Tahun 2009 – 2018. *Jurnal Humaniora*, 4, 244–255.
- Salam, W. R. (2020). INFLASI DITENGAH PANDEMI DALAM PERSPEKTIF ISLAM. *Jurnal Syntax Transformation*, 1, 187–192.
- Salim, A., Fadilla, & Purnamasari, A. (2021). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi Indonesia Anggun Purnamasari. *Pemikiran Dan Pengembangan Ekonomi Syariah*, 7(1), 17–27.
- Sarbaini, S., & Nazaruddin, N. (2023). Pengaruh Kenaikan BBM Terhadap Laju Inflasi di Indonesia. *Jurnal Teknologi Dan Manajemen Industri Terapan*, 2(1), 25–32. <https://doi.org/10.55826/tmit.v2i1.132>
- Simanungkalit, E. F. B. (2020). PENGARUH INFLASI TERHADAP PERTUMBUHAN EKONOMI DI INDONESIA. *Journal of Management: Small and Medium Enterprises (SMEs)*, 13(3). <https://doi.org/10.35508/jom.v13i3.3311>
- Simon, F. (2023). FAKTOR-FAKTOR YANG MEMPENGARUHI INFLASI DI INDONESIA (STUDI PADA MASA PANDEMI COVID-19. *SCIENTIFIC JOURNAL OF REFLECTION*, 6, 125.
- Suriyani, N. K., & Sudiartha, G. M. (2018). Fakultas Ekonomi dan Bisnis Universitas Udayana , Bali , Indonesia ABSTRAK Investasi merupakan salah satu sarana dalam meningkatkan kemampuan untuk mengumpulkan dan menjaga kekayaan . Investasi dapat diartikan sebagai komitmen untuk menanamkan sejumlah da. *E- Jurnal Manajemen Universitas Udayana*, 7(6), 3172–3200.
- Todaro, M. P. and S. C. S. (2011). *Pembangunan Ekonomi* (Jilid 2). Erlangga.

The 1st International Conference on Islamic Economics (ICIE) 2024

Umaru, A., & Zubairu, J. (2012). The Effect of Inflation on the Growth and Development of the Nigerian Economy: An Empirical Analysis. *International Journal of Business and Social Science*, Vol. 3.

Wiriani, E., & Mukarramah. (2020). Pengaruh Inflasi dan Kurs terhadap Pertumbuhan Ekonomi Indonesia. *Jurnal Samudra Ekonomika*, 4, 41–50.