

## THE EFFECT OF INFLATION RATES ON ECONOMIC GROWTH IN INDONESIA

Tsamrotul Khusna<sup>1</sup>, Hendri Hermawan Adinugraha<sup>2</sup>, Ade Gunawan<sup>3</sup>, Ria<sup>4</sup>, Zohaib Hassan Sain<sup>5</sup>

<sup>1,2,3,4</sup> UIN K.H Abdurrahman Wahid Pekalongan

<sup>5</sup> Faculty of Business & Management Sciences, Superior University, Lahore, Pakistan

Email: tsamrotul.khusna@mhs.uin.gusdur.ac.id

**ABSTRAK:** Penelitian ini bertujuan untuk mengetahui apakah tingkat inflasi berpengaruh terhadap pertumbuhan ekonomi serta untuk mengetahui keterkaitan antara inflasi dan pertumbuhan ekonomi, jenis, faktor penyebab, dampak yang terjadi, dan pengaruh tingkat inflasi terhadap pertumbuhan ekonomi di Indonesia. Metode penelitian ini menggunakan metode kualitatif yang bersumber dari kajian literatur seperti jurnal, artikel, buku, skripsi dan lain-lain. Studi kualitatif dilakukan dalam lingkungan alami yang bersifat temuan baru. Inflasi merupakan kenaikan harga barang dan jasa yang disebabkan oleh peningkatan permintaan yang melebihi jumlah penawaran barang di pasar. Dimana Inflasi dan pertumbuhan ekonomi saling berkaitan satu sama lain. Inflasi yang tinggi dapat memperlambat pertumbuhan ekonomi, sementara inflasi rendah dan stabil dapat mendorong pertumbuhan ekonomi. Pertumbuhan perekonomian dapat didefinisikan sebagai pertumbuhan aktivitas ekonomi yang mempengaruhi perkembangan pada produk dan jasa yang telah dibuat oleh komunitas serta peningkatan sosial yang damai. Perekonomian dapat dipengaruhi oleh peningkatan pengangguran dan penurunan tingkat pengeluaran pemerintah akibat inflasi tinggi. Jika inflasi tidak dapat dikontrol, potensi pertumbuhan ekonomi dalam jangka panjang akan menjadi lebih buruk. Apabila inflasi tidak ditangani, hal itu akan mengakibatkan penurunan investasi produktif, pengurangan ekspor, dan peningkatan impor. Kondisi ini akan menghentikan pertumbuhan ekonomi. Selain itu, Inflasi berdampak negatif pada masyarakat, individu, dan kegiatan perekonomian secara keseluruhan. Studi menunjukkan bahwa inflasi memengaruhi pertumbuhan ekonomi secara signifikan dan negatif.

**Kata kunci:** Inflasi, Pertumbuhan Ekonomi, Harga barang

**ABSTRACT:** This research aims to determine whether the inflation rate has an effect on economic growth and to determine the type, and relationship between inflation and economic growth, causal factors, impacts, and the influence of the inflation rate on economic growth in Indonesia. This research method uses qualitative methods sourced from literature studies such as journals, articles, books, theses, and others. Qualitative studies are carried out in natural environments that are new findings. Inflation is an increase in the prices of goods and services

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*caused by an increase in demand that exceeds the supply of goods in the market. Where inflation and economic growth are related to each other, high inflation can slow economic growth, while low and stable inflation can encourage economic growth. Economic growth can be defined as the growth of economic activity that influences the development of products and services created by society as well as peaceful social improvement. The economy can be affected by downturns and reduced levels of government spending due to high inflation. If inflation cannot be controlled, the potential for economic growth in the long term will be worse. If inflation is not controlled, it will result in a decrease in productive investment, a reduction in exports, and an increase in imports. This condition will stop economic growth. In addition, inflation hurts society, individuals, and economic activities as a whole. Studies show that inflation affects economic growth significantly and negatively.*

**Keywords:** *Inflation, Economic Growth, Price of goods*

### **1. INTRODUCTION**

Economies in developing countries usually experience problems such as slow economic growth and high inflation (Salim et al., 2021). In economics, rising prices are known as inflation (Sukirno, 1998). Inflation, from an economic perspective, is defined as a monetary phenomenon in a country that tends to cause economic turmoil. Most countries around the world continue to focus on keeping prices stable. This is done to produce stable economic growth (Umaru, A. dan Zubairu, 2012).

Inflation describes the high cost of goods and services which are generally consumed in households. We always try to keep the inflation rate low and stable through various inflation control measures (Ningsih, D., & Andiny, 2018). According to documents published by BPS (2020), uncontrolled inflation can also disrupt the stability of the country and the economy, reduce population and purchasing power, and harm the business sector. Indonesia's economic growth is the main focus of efforts to improve people's welfare. However, exchange rate fluctuations and changes in inflation are often factors influencing this growth process. Inflation is one of the main influences on economic growth in a country, and there are many opinions regarding its impact on economic growth, one of which was the event in 1958 when Philips revealed that increasing inflation helped economic growth by reducing unemployment. Some structural figures and Keynesians argue that inflation does not harm economic growth, while monetarists claim that inflation has a bad effect on economic growth. Events in 1970 supported this, when inflation rates in other countries were high, especially in Latin

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

America, growth rates declined. This gives rise to the perspective that inflation has more negative than positive effects on economic growth (Simanungkalit, 2020a).

Inflation is a continuous process in which the prices of common goods rise. This does not mean that the prices of different goods rise at the same rate. Over a certain period, the price of goods may increase continuously. However, if prices increase only once, even by a large amount, this cannot be considered inflation (Nopirin, 1992). Indonesia experienced the highest inflation rate in 1998, reaching 77.6%. The rise in the rupiah exchange rate and the economic crisis are the main causes of increased inflation, which increases consumer perceptions of high inflation. In 1966, Indonesian inflation reached 6.35%, which was the highest hyperinflation rate ever recorded in Indonesia. Therefore, inflation is considered a psychological threat to the Indonesian people (Soesilo, 2002).

Each country's Central Bank is responsible for controlling inflation; in this case, Bank Indonesia is the central bank. To keep inflation low and stable, there are three important reasons (Bank Indonesia 2012). First, inflation will reduce people's real income. Second, inflation will hinder economic growth because it makes consumers, investors, and entrepreneurs doubtful. Third, as a result of inflation which affects the rupiah exchange rate (Arjunita, 2016).

Bank Indonesia creates and implements monetary policy to maintain the stable value of the rupiah. This monetary policy is implemented by controlling the money supply or interest rates. Interest rates should not be used to control inflation in Islamic economic politics. Because interest has a characteristic of usury, because of its existence; First, determine profits at the start. Second, the addition of multiple basic values. Third, losses and risks are borne by the borrower. Fourth, Penalty. Fifth, the desire to make a profit (Musa, 1998). According to Chapra (1996) Efforts to eliminate the interest system in Islamic economic politics, namely: First, using quantitative control which means regulating deposits at the central bank (reserve requirement), increasing the amount of credit, government deposits, general liquidity assistance, increasing morale, equity-based instruments, and variations in ratios. on the results. Second, to achieve economic and social goals, there are two ways, using social funds from additional transaction profits at commercial banks and central banks to assist people in need. Apart from using monetary instruments to overcome inflation, control will be more efficient if carried out using the government's price function (Arjunita, 2016).

## **2. METHOD**

### **2.1 Types of research**

This research uses a qualitative research approach. Qualitative studies are carried out in natural environments that are new findings. The researcher is the main tool in qualitative research. Therefore, for researchers to be able to ask questions, researchers must have extensive theory and knowledge to evaluate and construct the objects they obtain to make them easier to understand. (L.J Moleong, 2022). The research uses qualitative descriptive research to obtain information regarding the type of inflation that influences economic growth, the causal factors, the impacts that occur, and the influence of the inflation rate on economic growth in Indonesia.

### **2.2 Data source**

According to Lofland and Lofland (L.J Moleong, 2022). In qualitative studies, both speech and actions are the primary data sources. Additional data sources, such as documents, and others. The data comes from information collected by the authors through their studies. Then, the data obtained will be processed to produce new information that readers can use. Primary and secondary data are the two data sources used in this research. Primary sources in this research come from journals, articles, and books related to studying the relationship, causal factors, and impact of inflation on economic growth in Indonesia. Meanwhile, secondary sources in this research are used to complement and support primary sources by providing news about research issues.

### **2.3 Method of collecting data**

Researchers use library research. Literature is data produced through literature research including scientific works, newspapers, magazines, and theses to obtain concepts and ideas that are relevant to the subject of this research (Moleong, 2012). Data collection methods use books or references as research support; Required data is added or found from literature, references, magazines, papers, and other sources. This method also makes it possible to obtain written data by reviewing literature relevant to the research topic (Zed, 2016).

### **2.4 Data analysis technique**

The data analysis method used in this research is the most important part of the process of taking action to analyze the data that has been collected. Data analysis for qualitative studies is carried out during the data collection period and after (Cresswell, 2014). Content analysis in this research is used to scientifically analyze the information contained in the data as material for analysis and comparison to research the types of inflation that influence economic growth, the causal factors, the impacts that occur, and the influence of the inflation rate on economic growth in Indonesia. So that descriptions and interpretations can be understood completely and comprehensively.

## **3. RESULT AND DISCUSSION**

### **3.1 The Relationship between Inflation and Economic Growth**

Inflation and economic growth are related to each other. High inflation can result in slow economic growth, however low and stable inflation has the potential to encourage economic growth. The policies that can be taken by the government or Central Bank are influenced by high or low levels of inflation. This helps keep people's purchasing power prices stable. An increase in interest rates will encourage inflation to rise. Which will cause damage to the investment climate. Public consumption is decreasing along with

increasing unemployment. The rate of economic growth is influenced by a decrease in aggregate consumption levels (Nadirin, 2017).

According to Chowdhury and Mallik (2011), There is debate about theory and empirical research on the relationship between inflation and economic growth. One of them originated in Latin America in the 1950s, when structural and monetarist debates emerged. According to structuralists, inflation plays an important role in economic growth; However, monetarists argue that inflation causes damage to the process of economic growth. Countries with high inflation began to experience a decline in economic growth in the 1970s, especially Latin American countries which experienced hyperinflation and high inflation in the 1980s. Conditions like these have encouraged the idea that inflation hurts economic growth (Erbaykal, 2008).

The component that influences economic growth is considered inflation. There are many different perspectives on how inflation affects economic growth, in 1958, Philips said that increasing inflation had an impact on economic growth by reducing the number of unemployed. Structural and Keynesian figures argue that inflation does not harm economic growth, while monetarists have another opinion on this matter, namely saying that inflation harms economic growth. The events of 1970 supported this, when countries experiencing high inflation, especially Latin American countries, experienced a decline in growth rates. This results in the belief that inflation has more negative than positive impacts on economic growth (Simanungkalit, 2020b).

The following theory explains how inflation and economic growth are related:

1. Classical Growth Theory

Adam Smith introduced this classical growth theory, which prioritizes supply-side aspects, with the production function as the basis. The production referred to is:  $Y=f(L, K, T)$ , where Y is Income, L is Labor, K is Capital, and T is Land. Thus, economic growth ( $g_y$ ) is a function of population growth ( $g_L$ ), investment growth ( $g_K$ ), land area growth ( $g_T$ ), and productivity growth ( $g_f$ ) where production factors determine the productivity of L, K, and T or  $g_y=\Phi(g_f, g_L, g_K, g_T)$ .

2. Keynesian theory

This theory explains the relationship between inflation and economic growth. Where the short-term aggregate supply curve (AS) is positive. A positive AS curve shows an increase in output. Next, he developed a hypothesis about the long-term relationship between inflation and economic growth, where economic growth decreases while inflation increases. This situation supports factual evidence from several studies that discuss the relationship between inflation and economic growth, that an increase in inflation results in a decrease in economic growth.

3. Money and Monetary Theory

In this theory, Friedman links inflation to economic growth by comparing the total amount of money spent compared to the amount of money available in the economy. In the Quantity Theory of Money, both theories support supply-side components that persist in the long term.

4. Neo-Classical Theory

Solow (1956) and Swan (1956) describe the Neo-Classical model. Technological change that replaces investment is a key component of long-term growth. These exogenous factors, including inflation, are responsible for this long-term growth. Shows that inflation expectations reduce interest on money. Temporary (Mundell, 1963) was the first to explain the mechanism linking inflation and economic growth as a result of

increased demand for commodities. Thus, people prefer to keep their money in interest-bearing assets. Large savings increase capital accumulation and economic expansion.

#### 5. Endogenous Growth Theory

Profits from capital are the only factor that influences economic growth. Because inflation reduces profits and reduces capital accumulation, as a result, it lowers the rate of economic growth. According to this theory, if capital profits do not rise above a critical limit, economic growth will continue to occur, because people will continue to invest and increase capital accumulation. Endogenous Growth Theory emphasizes that human capital and physical capital also influence economic growth.

### 3.2 Factors Causing Inflation

#### 3.2.1 Natural Inflation and Human Error Inflation

Natural inflation is defined as inflation caused by natural factors that cannot be stopped by humans. Natural inflation can be classified based on its causes, viz (Awaluddin, 2017):

- a) Due to a large amount of foreign money coming in, exports increase ( $X\uparrow$ ) and imports decrease ( $M\downarrow$ ) the net value of exports increases significantly, as a result, Aggregate Demand ( $AD\uparrow$ ).
- b) As a result of the lockdown, war, and embargo which caused a decrease in production levels ( $AS\downarrow$ ). For illustration, for example, during the reign of Umar ibn al-Khattab, there was a shortage of wheat prices. This period is depicted as the AS curve shifts to the left ( $AS\downarrow$ ) on the graph, causing a price increase ( $P\uparrow$ ).

Inflation caused by human destruction occurs because:

- a) Corruption and Bad Administration

If officials are appointed based on bribery, nepotism, or incompetence, they will be placed in positions of importance and honor that cannot be trusted. People with a mentality like this would be willing to mortgage all their property to get this important position. Then these officials will abuse their power to fulfill their personal needs, such as meeting their financial and family needs or living in luxury. As a result, state revenue and income will drop drastically.

- b) High taxes

State spending increased rapidly as a result of the number of corrupt government officials. As a result, they implement various types of taxes and high taxation systems. As a result, there is an increase in production costs, which will cause the price of the products produced to rise.

- c) Printing excessive amounts of money

The government prints money on a large scale when the budget is short due to delays in economic growth and the bad behavior of officials responsible for spending state money. Therefore, money is no longer valuable.

#### 3.2.2 Actual/ Anticipated/ Estimated Inflation and Unexpected Inflation

When inflation is estimated, the actual loan interest rate will be the same as the nominal loan interest rate minus inflation or in notation  $r_t = R - \pi$ . On the other hand, in times of Unexpected Inflation the nominal loan interest rate may not consider compensation for the effects of inflation.

#### 3.2.3 Demand Inflation and Cost-Push Inflation

Namely an increase in prices caused by an increase in aggregate demand (AD) which is greater than aggregate supply (AS). In other words, inflation occurs when potential income is not comparable to national income. Cost-Push Inflation is inflation as a result of increasing prices and costs. Prices will rise if the supply of raw materials exceeds demand. Factories charge buyers higher prices for final products because they pay higher prices for raw materials. The merchant then increases the price of the product, which the customer pays (Huda Dkk, 2008). One of the inflation indicators most commonly used to regulate the inflation rate is the consumer price index (CPI), which shows changes in the CPI from time to time which shows the trade in goods and services used by the community. Other inflation indicators based on best practices around the world include:

- a. Wholesale Price Index (IHPB). The transaction price carried out on the first market between the first seller or large trader and the next buyer or large trader is called the large trading price.
- b. Gross Domestic Product Deflator (PDB). Shows the price level of final goods and services created in the economy. Gross Domestic Market (GDP) is calculated by dividing GDP at nominal prices by GDP at constant prices. The result is a GDP calculator error.

Besides that Rafika (2021) also stated several factors causing inflation, including:

- a. Money supply inflation occurs because of the imbalance that exists between the total money available and the total money demanded. If there is a lot of total money available, inflation will rise, and if the supply of money is too little, the result will be deflation.
- b. National income, if inflation is not controlled, long-term economic development will be disrupted. The profit-generating investment will decrease, exports will decrease, and imports will increase.
- c. Rupiah Exchange Rate, The exchange rate of a country's currency can change. The value of the currency of the country concerned may be affected by these changes. Because currency values vary, the price of goods that use raw materials from abroad rises if a country imports raw materials from other countries.

Nasution (1997) states that the government can overcome inflation in several ways, such as:

1. Monetary policy

These policies are managed to influence the amount of money offered in the economy through the central bank or to influence aggregate spending by changing interest rates. To deal with inflation and unemployment, the following monetary policies are used.

This monetary policy can be achieved through:

- a. Tight monetary policy  
This policy is an example of an effective method for dealing with inflation, as it impacts all sectors of the economy without discrimination. Every economic sector will experience delays in its operations if the money supply is reduced or restricted. This policy is implemented when economic inflation increases.
- b. Use of the Central Bank to increase bank interest rates  
Increasing bank interest rates by the Central Bank will encourage the community to save money, as a result, investment demand will decrease. Increasing bank interest rates aims to collect more money from the public. Once the amount of money distributed can be reduced, investment credit must be given through strict selection. Investments are only made to increase

output so that an increase in the total money distributed can be combined with an increase in the number of products produced.

## 2. Fiscal policy

This policy is an action taken by the government to modify taxes and government spending to influence overall economic spending, such as overcoming inflation and unemployment. The types of fiscal policy are as follows:

### a. Expansionary fiscal policy

In other words, increasing state spending while reducing the net tax level. This policy aims to increase people's ability to buy. When the economy declines, and unemployment levels are high, expansionary fiscal policy is used.

### b. Contractive fiscal policy

Namely by reducing state spending and increasing tax levels, this policy aims to reduce public purchasing power and fight inflation.

## 1.3 Types of Inflation that Can Influence Economic Growth

The process of increasing prices in an economy is called inflation (Sukirno, 2012). The inflation rate, also known as the percentage increase in prices, changes from one time to the next and differs from one country to another. Inflation is usually low, namely below 2 or 3 %. Inflation is moderate, between 4 and 10%, and very high inflation reaches several tens to hundreds of percent annually.

### 1. Inflation is divided into 3 forms, the following are based on relevant price increases:

#### a. Demand-Pull Inflation

This generally happens when the economy is growing, inflation will appear due to high income and high expenditure.

#### b. Cost-Push Inflation

This is especially true when the unemployment rate is very low and the economy is growing rapidly. If demand continues to grow, businesses will try to improve products by increasing the compensation and wages of their employees and hiring more people. Thus, production costs increase, which will ultimately increase the number of different products.

#### c. Imported Inflation

Increasing the price of imported goods can cause inflation. This occurs when the price of imported goods increases significantly affecting business expenses. A real-life example of this condition is the impact of increasing oil costs in the 1970s on the economies of Western countries and other oil-importing countries. During the production process of industrial goods, oil plays an important role. As a result, an increase in production prices leads to an increase in oil prices (Arsyad, 2021).

Inflation is divided into three categories: creeping inflation, modest inflation, and hyperinflation. This category is based on the rate of price increase that applies.

### **Creeping Inflation and Hyperinflation**

It is a cycle of increasing lower prices. Hyperinflation is when prices increase rapidly so that prices increase rapidly. On the other hand, an increase in prices of no more than two or three percent a year is considered this type of inflation. For example, inflation in Indonesia reached 500 percent in 1965 and 650 percent in 1966, indicating a five-fold increase in prices in 1965 and 6.5-fold in 1966.

### **Creeping Inflation and Economic Growth**

Most experts believe that creeping inflation is the best way to encourage economic growth. Experts argue that prices of goods usually increase at a higher rate than wages, so salary levels will not change or rise from inflation as long as inflation creeps. As a result, an increase in prevailing prices in particular results in an increase in business profits. Investments will increase due to greater profits. This theory is not approved by other experts. Only if creeping inflation can be consistently controlled over the long term does the view of allowing creeping inflation to drive economic growth make sense. Most economists who oppose policies that encourage creeping inflation say that hyperinflation will emerge as a result of uncontrolled creeping inflation. Entrepreneurs are no longer affected by inflation like this (Sukirno, 2012).

2. According to inflation theory, conventional economics can be divided into several categories (Awaluddin, 2017):

Inflation can be categorized based on its magnitude, namely:

- a. Mild Inflation

Single-digit inflation is below 10% every year. Inflation rates ranging from 2 to 4% are considered low inflation.

- b. Moderate Inflation

The inflation rate ranges from 20% - 200% every year. This happens because the government is weak, war, revolution, and other conditions result in empty goods while there is a lot of money.

- c. Hyperinflation

Inflation rate above 200% every year. In this situation, people don't like money. Spending money and saving it in the form of commodities like gold, land, and buildings is a better option because the price increase of these goods is proportional to inflation.

inflation can be categorized based on its source, including:

- a. Domestik inflation

This is inflation that originates from within the country. For example, when interest in certain goods increases, full inflation is generated from within the country, or when the price of goods is imported, then inflation occurs which is driven by costs originating from abroad.

- b. Foreign atau imortet inflation

This is inflation originating from abroad. For example, when exports increase consistently, there is full inflationary demand originating from abroad. When production components are imported, some costs encourage inflation originating from abroad.

Inflation can be categorized into 2 based on people's expectations, as follows:

- a. Expected Inflation. In other words, the anticipated or predicted inflation rate. For example, if inflation remained 6% from 2001-2006, if asked what the estimated inflation would be from an Islamic perspective, the answer would be 6% in 2007.
- b. Unexpected inflation. In other words, inflation that is not predicted will occur. For example, inflation in 2007 is estimated at 6%, but inflation may deviate from 6%. This shift was not anticipated (Rozalinda, 2014)

### **1.4 The Impact of Inflation on Indonesia's Economic Growth**

Like unemployment, inflation also has negative effects on individuals, society, and economic activity as a whole. Consequently, this should be avoided. Inflation tends to

reduce the level of prosperity of the majority of the population, which is one of the important consequences of inflation. Most economic actors are employees with fixed wages. Inflation generally occurs more quickly than employee salaries increase. As a result, workers' real wages will fall as a result of inflation, which in turn results in a decline in the level of prosperity of the majority of society (Arsyad, 2021).

If inflation cannot be controlled, the potential for economic growth in the long term will be worse. If inflation is not handled, it will result in a decrease in productive investment, a reduction in exports, and an increase in imports. This desire will stop economic growth (Sukirno, 2012).

The increase in prices of goods will be influenced by inflation. With an increase in product prices which is influenced by product availability, besides, people's purchasing power will experience changes, which will have an impact on economic life. The impact of inflation on the economy is as follows (Com, 2023):

1) The Impact of Inflation on Income

People's income can be affected by inflation. Change can be beneficial or detrimental. Inflation can drive economic development in some situations, such as soft inflation. Sometimes, entrepreneurs may be forced to increase their production due to inflation. As a result, new job opportunities and income will increase. However, this is a very unusual situation. Because inflation makes them buy fewer goods and services than usual, people on fixed incomes lose out. From an Indonesian perspective, lower levels of society are often disadvantaged by inflation. Therefore, the government is often criticized for its inappropriate policies, which cause inflation to continue to increase. Any inflation usually causes problems. Therefore, the government's task is to carry out good policy interventions in the provision of public goods and equality still needs to be improved.

2) The Impact of Inflation on Production Costs

Although some entrepreneurs make profits from production, many more experience losses. Entrepreneurs have to limit the quantity of their products to reduce prices because production costs are high. Rising raw material prices due to inflation also influence this price increase. Therefore, when profits decrease, entrepreneurs or companies hire employees to prevent greater losses in workers' wages than sales profits. Therefore, inflation will affect people's lives and income.

3) Impact of Inflation on Cost Price Calculations

Basic prices can increase due to inflation. This is due to high demand and unusual availability of goods. Apart from that, increasing the price of production materials can also have an impact on increasing product prices. In this case, if the price of raw materials for production increases, production costs will also increase, therefore product prices will also increase. Therefore, people's purchasing power will also be influenced by the expensive prices of goods. It's not surprising that this weighs heavily on individuals on fixed incomes as prices of necessities increase but their wages do not. Equilibrium curves make understanding the demand for these products and their availability easier. In addition, this curve provides an explanation and illustration of how prices can be influenced by the availability of goods and quantity demanded, which can cause inflation.

4) The Impact of Inflation on People's Purchasing Power

People's purchasing power will decrease as a result of high basic prices. Because public consumption is the engine of the economy, this is very dangerous for the economy because economic growth will slow down if people's purchasing power falls. They will make greater savings, especially for employees affected by layoffs. Of course, the amount of workers' fixed income despite high prices of basic goods also influences this.

5) Impact of Inflation on Exports

Prices of exported goods fall when inflation rises. This is the result of an increase in the price of exported goods. Both countries and exporters can experience difficulties due to inflation. An increase in the price of fuel for carrier aircraft or carrier ships resulting in higher export costs is a simple example. Because competition for export products decreases, the country experiences losses. Low sales also reduce the amount of foreign exchange earned.

6) The Impact of Inflation on People's Interest in Saving

When inflation occurs, because the amount of interest received decreases, customers' real income decreases. However, to attract new customers to save, banks usually increase interest rates for their customers. As a result, the distribution of money is getting smaller. Therefore, usually during inflation, more customers open savings. When banks raise interest rates, what encourages people to save? No doubt to reduce the total money supply. Inflation factors include high spending combined with a scarcity of goods. Saving keeps money circulating, so there is a possibility that inflation will stabilize.

7) The Impact of Inflation on Investment

Mutual fund and stock investments can be affected by inflation. If interest rates increase, the prices of bonds and shares will decrease. If you have mutual funds consisting of shares and bonds, you may have to experience losses until prices tend to stabilize. If inflation occurs in stock investments, investors will lose their confidence in the state of the capital market and take their money out of stocks. If interest rates rise, investors will withdraw their money from the capital market for savings. Because of this, the share price will fall and you will lose money.

#### **4. CONCLUSION**

The focus of this research is to find out whether the inflation level has a significant effect on Indonesia's economic growth. The author concludes that inflation has a large effect and a negative impact on Indonesia's economic growth. High levels of inflation can lead to increased unemployment and reduced levels of government spending, which in turn impacts economic growth; however, a low and stable inflation rate can encourage economic growth and high inflation can slow it down. In addition, inflation hurts society, individuals, and economic activity as a whole.

To achieve quality and meaningful economic growth, it can be suggested that the government must continue to update and evaluate inflation control policies, both monetary policy and fiscal policy. Apart from that, the government should also keep all product prices stable and the government monitor prices while setting maximum prices.

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

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