INFLATION AND ITS CONTRIBUTION TO ECONOMIC STABILITY IN INDONESIA; THE ISLAMIC ECONOMIC PERSPECTIVE

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Abstract: Inflation has decreased compared to times that have been exceeded, however, its journey has slowed down. The development of GDP achievements also accompanies this. This paper aims to analyze the slowing down in inflation decline and its impact on economic stability. This paper is reviewed with a qualitative approach and research type of literature study. This paper shows that reducing inflation is one of the efforts to maintain the stability of a country's economy and economic stability is an important factor in maintaining the sustainability of a country's economy.

Abstrak: Inflasi telah menurun dibandingkan dengan waktu yang telah terlampaui, namun perjalanannya telah melambat. Perkembangan pencapaian PDB juga menyertai hal ini. Tulisan ini bertujuan untuk menganalisis perlambatan penurunan inflasi dan dampaknya terhadap stabilitas ekonomi. Tulisan ini dikaji dengan pendekatan kualitatif dan jenis penelitian studi pustaka. Tulisan ini menunjukkan bahwa menurunkan inflasi merupakan salah satu upaya untuk menjaga stabilitas perekonomian suatu negara dan stabilitas ekonomi merupakan faktor penting dalam menjaga keberlangsungan perekonomian suatu negara

Keywords: inflation, economic stability, economic growth, Islamic economic perspective
A. INTRODUCTION

Inflation and economic stability are two things that are interrelated in a country's economy. High inflation can have a broad impact on the economy, such as increasing the prices of necessities and decreasing people's purchasing power. Therefore, inflation is the focus for every country in maintaining economic sustainability and the government needs to take appropriate action to reduce the inflation rate and maintain economic stability in Indonesia. Meanwhile, economic stability is an important factor in maintaining the sustainability of a country's economy. Economic stability can be achieved by maintaining financial system stability, increasing economic growth, and controlling factors that affect economic stability.

In the perspective of Islamic economics, inflation is a monetary phenomenon that occurs when the value of a unit of money decreases against a commodity. Monetary phenomena adversely affect the economy because they disrupt the function of money, distort prices, damage output, reduce productive investment, and cause injustice and social tensions.

The stability of a country's economy is the focus of every country. This is because if a country's economy is unstable, it will cause economic problems such as low economic growth, high unemployment, and high inflation rates.

High inflation certainly disrupts economic stability, because high inflation causes economic growth to decline. Inflation can change people's income to be detrimental or beneficial depending on the community to be detrimental or profitable depending on the severity of inflation that occurs. If there is mild inflation, it will be beneficial or have a positive impact so that it will encourage a better economy through an increase in national income. Meanwhile, if there is severe inflation, it will push the economy for the worse. Thus, inflation is something that must be overcome immediately because inflation has a bad impact on a country and can reduce investment followed by reduced economic activity and increased unemployment which can slow down a country's economic growth.

B. THEORETICAL BASIS

Inflation

Inflation is a general and continuous increase in the price of goods and services over some time. An increase in the price of one or two goods cannot be called inflation unless it is widespread or results in an increase in
the price of other goods, the opposite of inflation is called deflation. In the perspective of Islamic economics, inflation can be interpreted as a monetary phenomenon due to a decrease in the value of a unit of money against a commodity.

The calculation of inflation is carried out by the Central Bureau of Statistics (BPS) in Indonesia. BPS conducts surveys to collect price data from various kinds of goods and services that are considered representative of public consumption expenditure. The data is then used to calculate the inflation rate by comparing the current price with the previous period.\(^\text{10}\)

According to AP Lehner, inflation is a state where there is excess demand for goods in an economy as a whole. According to Boediono (1995), inflation is defined as the tendency of prices to increase in general and continuously. Meanwhile, according to FW Paish, he explained inflation is a condition in which national income increases much faster when compared to the increase in goods and services produced in an economy. From some of the above understandings, it should be underlined that the definition of inflation includes the following aspects: 1. Tendency, which is in the form of the tendency of prices to increase, meaning that at a certain time, it is possible to decrease prices but overall has an increasing trend. 2. Sustained, price increases that occur do not only last for a certain time but continuously for a long time. 3. General level of price, price in the context of inflation is intended as the price of goods in general, not in the sense of one or two types of goods only.\(^\text{11}\)

In the opinion of every economist, inflation can be defined as a state in which the increase in goods and services in general is faster than continuously produced in an economy.

**Types of Inflation**

Types of inflation based on its origin: 1) Inflation originating from within the country (domestic inflation), this inflation is caused by shocks from within the country, both due to public actions and government actions in carrying out economic policies. 2) Imported inflation, imported inflation

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\(^\text{10}\) Bank Indonesia, "Inflation", [https://www.bi.go.id/id/fungsi-main/monetary/inflation/default.aspx](https://www.bi.go.id/id/fungsi-main/monetary/inflation/default.aspx), accessed 13 September 2023

is inflation that occurs domestically due to the influence of price increases from abroad, especially the increase in prices of imported goods which subsequently also has an impact on increasing prices of production input goods that still cannot be produced domestically.

Types of inflation based on its severity: 1) Mild inflation does not interfere with economic conditions because various product prices will only increase in general. 2) This moderate inflation can endanger economic activities because it can reduce the welfare of people who already have a fixed income. 3) This heavy inflation can disrupt economic activities because people no longer want to save in banks because the interest is smaller than the inflation rate. 4) Very heavy inflation is inflation that is already very difficult to control.

Types of inflation by their nature: 1) Low inflation (creeping) is characterized by a low inflation rate, where there is a slow increase in prices with a percentage that tends to be small and over a long period. 2) Medium inflation, this type of inflation is characterized by a fairly high price increase and has an accelerated nature that occurs in a short period. 3) Severe and high inflation rates characterize high inflation.12

**Inflation Indicators**

Several indicators can be used to determine whether an economy is being hit by inflation or not, these indicators include 1) consumer price index (CPI), which is an index that calculates the average price change in a period, from a collection of goods and services consumed by the population or household in a certain period. Changes in the Consumer Price Index from time to time show price movements of packages of goods and services consumed by the public, this indicator is often used to measure inflation. 2) Large Trade Price Index (IHPB), is an indicator that describes the price movements of commodities traded at the producer level in a region in a certain period. If in the Consumer Price Index what is observed is the final goods consumed by the public, in the Large Trade Price Index what is observed is raw goods and intermediate goods that are inputs for producers. 3) Gross Domestic Product (GDP) Deflator, is an indicator that describes the measurement of the price level of final goods and services produced in

12 ADMINLP2M, "Price Inflation: Definition, Types and Causes", in https://lp2m.uma.ac.id/2023/01/31/inflasi-price-definition-types-and-causes/, accessed September 14, 2023
an economy (country). The GDP deflator is generated by dividing GDP based on nominal prices by GDP on a constant price basis.\textsuperscript{13}

**Factors Causing Inflation**

In principle, inflation can occur because there is no harmony between the rate of money accrual and the growth rate of goods and services. If the money supply increases, while the production of goods and services is fixed, then this tends to encourage inflation. However, several factors can cause inflation, including a) Increased public demand for goods and services. For example, when the government increases the salaries of civil servants (PNS), it will usually be followed by an increase in demand for goods and services. If this increase in demand is not offset by an increase in the number of goods and services in the market, then this will increase the price of goods and services. b) Rising production costs. For example, when the government increases the price of fuel oil (BBM), the price of goods in the market will also increase. This increase in fuel prices also has an impact on increasing production costs, as a result of which the company will also increase the selling price of its goods and services. c) Budget deficit (APBN). The state budget deficit, which is closed by the printing of new money by Bank Indonesia, will increase the money supply, and will ultimately have an impact on increasing the price of goods and services. d) The decline in the rupiah exchange rate against foreign currencies, such as the US dollar, will have an impact on the more expensive imported production goods. This will increase production costs and will ultimately increase the selling price of goods. e) Public forecasts of future price increases.\textsuperscript{14}

In the perspective of Islamic economics, inflation is caused by natural and human factors. Natural inflation is caused by natural disasters, crop failures, and other natural factors that affect the supply of goods and services. Meanwhile, inflation is caused by human errors such as corruption, poor administration, and political instability.\textsuperscript{15}

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\textsuperscript{13} Bank Indonesia, "Inflation", accessed in \url{https://www.bps.go.id/subject/3/inflasi.html}, on 23rd October 2023
\textsuperscript{14} Fery Andrianus & Niko Amelia. 2006. Analysis of Factors Influencing Inflation in Indonesia
\textsuperscript{15} Nanang Qusyaeri, "Inflation factors and their mitigation in an Islamic economic perspective", (IAIN Raden Intan Lampung: Undergraduate thesis, 2017)
\end{flushleft}
Economic Stability

Stability in economics is defined as a condition in which there is an economy that is running according to the planned plan, meaning that all activities in the economic sector run as expected, can be controlled, and are also sustainable with each other. To create the achievement of improvement of people's welfare through predetermined plans for higher economic growth. Achieving high economic stability is not always easy. Many factors influence the achievement of economic stability, including monetary and fiscal policies, global economic growth, financial market conditions, and other factors. Therefore, the government often takes steps to maintain economic stability.16

Economic stability in the perspective of Islamic economics refers to conditions where economic activities run in balance and stability to achieve community welfare and sustainable economic development. Economic stability must include balance, fiscal and monetary policies, equity, and risk management to be applied in a balanced and proportional manner to achieve public welfare and sustainable economic development.

C. RESEARCH METHOD

The method used in this research is qualitative-descriptive. Research with a qualitative-descriptive design aims to understand the phenomena experienced by research subjects, including behavior, motivation, and actions. Moreover, descriptive means in the form of words and language in a special natural context using natural methods.20

The type of this research is library research. Library research is a data collection technique by reviewing books, literature, notes, and various reports related to the problem to be solved. Other experts say library research is a theoretical study, references, and other scientific literature related to culture, values, and norms that develop in the social situation under study.

Meanwhile, Khatibah argues that library research is an activity carried out systematically to collect, process, and summarize data using certain

16 Evi Sugiatni, "Economic stability in an Islamic perspective economy", in https://osf.io/z2k9c/download, accessed September 14, 2023
methods/techniques to find answers to the problems faced through library research.\textsuperscript{21} Meanwhile, Danandjaja argues that library research is a scientific systematic bibliographic research method, which includes collecting bibliographic materials, which are related to the research target; collection techniques with library methods; and organizing and presenting data.\textsuperscript{22}

So library research is a research activity carried out by collecting information and data with the help of various kinds of materials in the library such as reference books, similar previous research results, articles, notes, and various journals related to the problem to be solved. Activities are carried out systematically to collect, process, and summarize data using certain methods/techniques to find answers to the problems faced by activities in library research.

The research subjects were phenomena of slowing down in inflation decline and impact the economic stability. Inflation has decreased compared to times that have been exceeded, however, its journey has slowed down. Next, the data obtained is processed and interpreted using qualitative data analysis techniques.

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\textsuperscript{22} Danandjaja, J. Metode Penelitian Kepustakaan. Antropologi Indonesia. 2014.
D. DISCUSSION
Recent Data on Slowing Down in Inflation

Inflation as a macroeconomic indicator is an instrument for maintaining economic stability. Here is the inflation data in Indonesia:

### INFLATION DATA IN INDONESIA

<table>
<thead>
<tr>
<th>DATE</th>
<th>INFLATION DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2023</td>
<td>2.28%</td>
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<tr>
<td>August 2023</td>
<td>3.27%</td>
</tr>
<tr>
<td>July 2023</td>
<td>3.08%</td>
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<tr>
<td>June 2023</td>
<td>3.52%</td>
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<tr>
<td>May 2023</td>
<td>4%</td>
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<tr>
<td>April 2023</td>
<td>4.33%</td>
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<tr>
<td>March 2023</td>
<td>4.97%</td>
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<tr>
<td>February 2023</td>
<td>5.47%</td>
</tr>
<tr>
<td>January 2023</td>
<td>5.28%</td>
</tr>
<tr>
<td>December 2022</td>
<td>5.51%</td>
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</tbody>
</table>

Source: Bank Indonesia Data

Data shows that the decline in inflation in Indonesia has slowed in recent times. Here are some data showing a slowdown in inflation decline in Indonesia:

a) CPI inflation in September 2023 was recorded at 2.28 percent on an annual basis, lower than the previous month's CPI inflation of 3.27 percent on an annual basis

b) Inflation in May 2023 was recorded at 4.0% (yoy), decreasing from April 2023 (4.3% yoy)

c) Core inflation slowed to 2.18% (yoy) in September 2023, down from 2.43% (yoy) the month earlier

Although inflation is still under control within the target range, the slowdown in inflation reduction can be a concern for the government in maintaining economic stability in Indonesia. Some factors that affect inflation in Indonesia include high demand, high production costs, money supply, increase in production factor prices, increase in import prices, increase in energy prices, and increase in tax prices. Therefore, the
government needs to take appropriate measures to control these factors and lower the inflation rate to maintain economic stability in Indonesia.\textsuperscript{23}

**Challenges in Maintaining Economic Stability**

Although monetary policy can help maintain and control economic stability, several challenges or problems can affect the effectiveness of this policy. One of the main challenges is economic uncertainty. Economic instability is caused by several factors, such as changes in government policy, financial market turmoil, and political uncertainty. Economic uncertainty can also make investors and consumers hesitant to invest and consume, which can slow economic growth.

In addition, problems in the financial system can also affect economic stability. The financial crisis that occurred in 2008 is an example of how problems in the financial system can affect overall economic stability. Financial crises can occur when there are problems in the financial system, such as non-performing loans, excessive risk-taking, and financial market imbalances. A financial crisis can trigger an economic recession and can cause huge losses to the corporate community.

So it can be concluded that maintaining economic stability is important for people's welfare. Monetary policy is one of the economic policy instruments that can help maintain economic stability by controlling inflation and managing interest rates. Although monetary policy can help maintain economic stability, several challenges can affect the effectiveness of this policy, such as economic uncertainty and problems in the financial system. Therefore, it is important for governments and central banks to continuously monitor economic conditions and take appropriate measures to maintain healthy and sustainable economic stability.\textsuperscript{24}

**The Importance of Price Stability in Economic Growth**

Low and stable inflation is a prerequisite for sustainable economic growth which ultimately benefits the improvement of people's welfare. The

\textsuperscript{23} Bank Indonesia, "Inflation Data", in https://www.bi.go.id/id/statistik/indikator/data-inflasi.aspx, on 23rd October 2023

\textsuperscript{24} PR Team, "Maintaining economic stability through monetary policy", in https://an.nur.ac.id/menjaga-stability-economy-through-monetary-policy/, accessed September 14, 2023
importance of controlling inflation is based on the consideration that high and unstable inflation hurts people's socioeconomic conditions. First, high inflation will cause people's real incomes to continue to fall so that the standard of living of the people falls and eventually makes everyone, especially the poor, poorer. Second, unstable information will create uncertainty for economic actors in making decisions. Empirical experience shows that unstable inflation will complicate people's decisions in consumption, investment, and production, which in turn will reduce economic growth. Third, the domestic inflation rate that is higher than the inflation rate in domestic countries makes the real domestic interest rate uncompetitive, which can put pressure on the rupiah value. Fourth, price stability plays an important role in supporting efforts to maintain financial system stability.

**Impact of Inflation on Economic Stability**

Overall inflation negatively affects the economy in Indonesia. If inflation increases, the economy will decline because rising inflation indicates that there has been an excessive increase in prices. High prices will reduce public demand for goods so that the production of goods and services becomes low and will cause the economy to decline. Vice versa, low or stable inflation which is indicated by stable prices will increase people's ability to obtain goods and services that trigger production to increase. The increase in goods and services will improve the economy.

The effect of inflation on the economy in Indonesia is not significant. Rising inflation is not always followed by a downturn in the economy and conversely, falling inflation is not always followed by an increase in the economy in Indonesia. The possibility of inflation can cause an increase in production because, in inflationary conditions usually, price increases precede wage increases so that employers' profits rise. However, if this inflation rate is high enough, it can have the opposite effect, namely a decrease in output. In the event of high inflation, the value of real money drops dramatically, people tend not to have cash, and transactions lead to barter, which is usually followed by a decrease in the production of goods. Inflation can be followed by an increase in output, but it can also be followed by a decrease in output.

The impact of inflation can be prevented by policies that a country can take to maintain economic stability: a) Monetary policy or government
policy carried out by the central bank to regulate the circulation of money using its instruments such as reducing the cash supply, raising interest rates and conducting open market operations by selling securities. b) fiscal policies or government policies on tax regulations and government spending, which have a direct effect on total demand and price changes. So it is clear that the government must maintain planning for the use of the state budget by reducing government spending regulations and raising tax rates to balance public consumption purchases as well as the strength of production of goods and services. c) policies issued by the government used in increasing production output that will show economic capability, by reducing public wages which will reduce income that is ready to be spent, and by monitoring market prices so as not to be increased carelessly by entrepreneurs and by lowering import duties so that there is an increase in imported goods and causing domestic goods to increase so that prices decrease.

In conclusion from the text above, inflation in Indonesia has a complex impact on the economy. Rising inflation, which often indicates excessive price increases, can lead to a decrease in public demand, which in turn can reduce the production of goods and services, potentially lowering the economy. Nonetheless, the impact can vary; Moderate inflation can stimulate production if price increases precede wage increases, while high inflation can result in decreased output.

The government has several policy tools, including monetary and fiscal policies, as well as market price monitoring, to control inflation and maintain economic and price stability. However, the relationship between inflation and the economy is not always direct, and other factors also play a role in Indonesia's economic dynamics. Therefore, the government needs to take wise policies to maintain economic stability, accepted prices, and sustainable growth.25

Economic Stability Data and Its Relation to Slowing Inflation

Economic stability can be shown by economic growth in Indonesia as follows:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DATA</th>
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<tbody>
<tr>
<td>Second Quarter of 2022</td>
<td>5,46%</td>
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<tr>
<td>Third Quarter of 2022</td>
<td>5,37%</td>
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<tr>
<td>Quarter IV 2022</td>
<td>5,01%</td>
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<tr>
<td>Trwiulan I 2023</td>
<td>5,03%</td>
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</table>

Source: Bank Indonesia Data

Data shows that Indonesia's economic stability is still maintained despite a slowdown in inflation reduction. Indonesia's economic growth remains strong amidst the global economic slowdown. Data from the Central Statistics Agency (BPS) shows economic growth in the first quarter of 2023 of 5.03%. Despite the slowdown in inflation, Indonesia's economic stability has been maintained with strong economic growth, sound state revenues, a healthy external position, and improved household consumption. Bank Indonesia will also continue to take measures to maintain economic stability and curb inflation back within the target corridor.26

E. CONCLUSION

Inflation and economic stability are closely related. Inflation in Indonesia has increased in the decade of the current year and is still below the low inflation rate of below 10%. Rising inflation in Indonesia hurts economic stability in general, such as declining people's purchasing power and difficult decision-making in consumption, investment, and production. Low and stable inflation is a prerequisite for sustainable economic growth which ultimately benefits the improvement of people's welfare.

The slowdown in inflation decline can be a concern for the government in maintaining economic stability in Indonesia. Slowing

26Bank Indonesia, "Indonesia's Economic Growth Remains Strong", in https://www.bi.go.id/id/publikasi/ruang-media/news-release/Pages/sp_2511423.aspx, on 23rd October 2023
consumption can be the cause of low inflation, this can occur due to a slowdown in weak demand.

In this regard, the government needs to continue to take appropriate actions to control inflation and maintain economic stability in Indonesia. This can be done by controlling factors that affect inflation, such as high demand, high production costs, money supply, increase in production factor prices, increase in import prices, increase in energy prices, and increase in tax prices. In addition, the government also needs to continue to increase economic growth, good state revenues, a healthy external position, and improved household consumption to maintain economic stability in Indonesia.

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