DETERMINANTS OF INFLATION: Monetary and Macroeconomic Perspectives

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ABSTRACT
Inflation comes at any time, from anywhere, and cannot be controlled. However, we can make an effort to minimize it, through controlling a number of economic instruments, such as the monetary sector. We need to manage how the financial aspects can be controlled, both money circulating in the community, money in transactions (exports and imports), and money in savings. On this basis, this study is interested in disclosing several monetary factors that affect inflation. The method used in this research is quantitative, with regression analysis. Secondary data is used as a way of analyzing phenomena. The sampling technique uses a purposive type, namely the use of data based on predetermined criteria. The results of the study explain that inflation occurs over a long period of time, slowly. Financial and economic factors become one of the instruments that have an impact on inflation. So do not be surprised, if in every change, both economic and financial aspects, always correlated with inflation.

Keywords: Macroeconomics, Financial Aspects, Market Aspects, Bank and Monetary, Inflation

INTRODUCTION
Inflation is one of the economic problems that developing countries such as Indonesia continue to face. Inflation growth is always controlled for stability so that problems in the macro economy do not occur. High Inflation reflects the general condition of rising prices for goods and services (Sugihyanto, 2021). The increase in the price of goods and services will result in a decrease in people's purchasing power which results in goods that are no longer produced not being sold out so that investment by producers will decrease. If the investment made by producers decreases, national income will also decrease, reflecting economic growth.

Indonesia as a developing country is not immune from inflationary fluctuations caused by both external and domestic sources. Indonesia experienced a monetary crisis caused by inflationary fluctuations from abroad in 1998. However, a decade after the monetary crisis, the economy in Indonesia continued to improve, inflation growth has
begun to be controlled and economic growth has a stable growth trend (Lie, & Rivai, 2021).

Bank Indonesia as the highest monetary authority in Indonesia has the task of maintaining economic stability. The stability of an economy can be said with inflation indicators that can be controlled at a moderate level (Permana, & Setiawan, 2022). However, inflation is needed for the rate of economic growth. The Money Supply has continued to increase from 2009 to 2019. Although the Money Supply (M2) continues to increase, the inflation rate tends to fluctuate. The most striking comparison occurred in the range of 2012 to 2015 when inflation experienced significant fluctuations compared to the Money Supply (M2) which consistently continued to increase.

The research of (Adim, 2021), shows that there is a long-term relationship between the Money Supply and Inflation in Nigeria in the period 1980-2011. The results of this study also show that the money supply and interest rates also have a positive effect on inflation, while government expenditure and the exchange rate have a positive relationship with inflation.

Islamic Bank Financing and Islamic Interbank Money Market are instruments born from the rapid growth of Islamic finance in Indonesia (Ulum, 2021). Islamic bank financing is an alternative to obtain financing with sharia principles where creditors can get capital without having to worry about the elements of usury, gharar, and maysir.

Islamic bank financing has an increasing trend compared to inflation and the Islamic Interbank Money Market. In 2012, inflation was at 4.30% and Islamic Bank Financing was at Rp. 147,505 billion, while the Sharia Interbank Money Market was at Rp. 728 billion. The following year, namely 2013, the inflation rate, Islamic Bank Financing, and Islamic Interbank Money Market increased where inflation was at 8.38%. Islamic Bank Financing was at Rp 184,122 billion and Islamic Interbank Money Market is at Rp. 750. The growth in the value of Islamic Bank Financing does not appear to be affected by fluctuations in the inflation rate where the lowest value of Islamic Bank Financing was in 2012 with Rp. 147,505 billion and the lowest value was in 2019 with Rp. 334,312 billion.

From the results of these studies, it can be concluded that Islamic Bank Financing and Islamic Interbank Money Market have a short-term and long-term relationship to inflation (Wicaksana, & Sukmana, 2018). Further research is needed to determine the
development of the short-term and long-term relationship between Islamic Bank Financing and Islamic Interbank Money Market on inflation using the latest data.

Foreign debt also affects inflation along with fluctuations in the Rupiah exchange rate against the US Dollar. The increase in foreign debt with the continued depreciation of the Rupiah against the US Dollar will create imported inflation if not controlled properly (Asriani, & Hapsari, 2022). Although Indonesia's foreign debt did not increase significantly but the rupiah continued to depreciate, inflation could occur through sectors that require imported raw materials. The increase in the price of these raw materials will indirectly increase prices in the domestic market. Therefore, the inflation rate cannot be separated from the foreign debt factor.

According to research by (Istinganah, & Hartiyah, 2021), the results of research using data for the period 1978-2017 show that foreign debt has a long-term effect on inflation. This indicates that in the long run, external debt will increase at the same time as inflation increases and vice versa. Therefore, Indonesia as a developing country is advised not to rely on foreign debt because it does not strengthen domestic economic conditions. But in fact, during the period from 2010 to 2019 Indonesia's foreign debt continued to increase. Therefore, further research is needed to determine the long-term relationship between External Debt and Inflation with the latest data.

Inflation is something that cannot be avoided in every developing country. However, controlling inflation is very important to maintain economic stability because with an appropriate inflation rate, economic growth can be achieved. The many factors that influence inflation make inflation one of the most important economic problems and will continue to occur. Therefore, it is important to review the issue with the latest data.

THEORETICAL BASIS

Sharia

Bank Financing is the distribution of financing capital with the application of sharia-compliant principles through Shariah Companies. Sharia Company is a Sharia Bank Financing company and sharia business unit. Sharia Bank financing has three categories, namely buying and selling financing, investment financing, and service financing (Azizuddin, & Rasyidah, 2022). Sharia Bank Financing has a written
agreement between the Sharia Company as the lender and the borrower stating the rights and obligations between the two parties based on Sharia Principles. Sharia principles are legal provisions in Islam that refer to the fatwa issued by the National Sharia Council of the Indonesian Ulema Council.

**Sharia Interbank Money Market**

Sharia Interbank Money Market is used in Indonesia as a tool to minimize excess liquidity in addition to using Bank Indonesia Sharia Certificates (SBIS). The Sharia Interbank Money Market is the main instrument used before the Sharia Bank Indonesia Certificate (SBIS), because the auction process in the Sharia Interbank Money Market is much easier and can be done every day. So that there is more liquidity through the Islamic Interbank Money Market (Nurmaida, 2018). The Sharia Interbank Money Market conducts financial transactions using rupiah and foreign currencies in the short term between banks by applying sharia principles. Sharia Interbank Money Market Instruments are financial instruments applying sharia principles issued by Sharia Commercial Banks (BUS) or Sharia Business Units (UUS) used in transactions in the Sharia Interbank Money Market.

**The Money Supply**

According to (Pratiwi, 2022), the Money Supply is all types of money circulating in the economy of a country. Included in the Money Supply are money circulating in the community and money in banks. This understanding is then divided into two, namely a limited understanding and a broad understanding. The limited definition (M1) is the currency circulating in the community plus demand deposits owned by individuals, business actors, and also government agencies. The broad definition (M2) includes: (i) currency circulating in the community, (ii) demand deposit and (iii) quasi money, which consists of time deposits, savings accounts, and foreign exchange accounts owned by the private sector and domestic.

The level of the money supply is determined by the policies of the Central Bank and household actors as money holders and banks as money custodians. The amount of money in circulation, namely foreign currency owned by the public and deposits in banks, can be used by household players to conduct transactions (Siregar, 2022).
Debt is all debt loans obtained by the Government from foreign debt lenders by agreement and not in the form of Government Securities which must be paid with pre-determined conditions. Foreign debt is needed because of the need for government spending that cannot be postponed and also creates productive assets for future needs through infrastructure development and also education development as well as to support economic growth so that it is at the desired level.

Foreign debt can be an additional capital for the government to carry out economic development and infrastructure development. But high foreign debt can increase inflation. The budget deficit can be reduced through the sale of government bonds or by increasing the Money Supply. The situation will get worse if high foreign debt will cause default (default) so that the domestic currency will depreciate against foreign currencies (Adlu, et al., 2022).

**Inflation**

There are several definitions of inflation put forward by experts, but in general inflation can be interpreted as a continuous increase in the overall price of goods. According to (Yanti, 2018), defines inflation as an event that shows an increase in prices in general and takes place continuously within a certain time span. Because inflation is measured by the average price level, it is possible for the prices of individual goods to increase and decrease continuously without changing the average price level (Saiyed, 2021).

**METHOD**

Research This research is a quantitative research. The scope of this research is to see the effect of the independent variables of Islamic Bank Financing, Islamic Interbank Money Market, Money Supply (M2), and Foreign Debt on the dependent variable, namely inflation.

The data collection method used in this research is secondary data. Secondary data is data taken from a second source or secondary sources of data to be used in research. Secondary data were obtained from government-owned agencies and institutions such as Bank Indonesia (BI), the Central Statistics Agency (BPS), the Financial Services Authority (OJK), and the Ministry of Trade.
RESULT

From the Granger Causality Test results, it can be seen that the variables that have a causal relationship are variables with probability values < 0.05% which means H0 will be rejected. From the results of the Granger Causality Test, it can be seen that the causal relationship is as follows:

1. Inflation variable statistically significantly affects FINC (0.14) so that the null hypothesis is rejected while FINC statistically significantly affects Inflation (0.31) so that the null hypothesis is rejected. Thus, it can be concluded that there is a two-way causality between the Inflation and FINC variables, namely the Inflation and FINC variables are statistically significant influence each other.

2. The JUB variable statistically did not significantly affect FINC (0.0002) so that the null hypothesis was accepted, while FINC statistically significantly affected JUB (0.058) so that the null hypothesis was rejected. Thus, it can be concluded that there is a one-way causality between the JUB and FINC variables, namely only the FINC variable which is statistically significant in influencing JUB and does not apply otherwise.

3. The PUAS variable statistically did not significantly affect the FINC (0.0043) so that the null hypothesis was accepted while the FINC statistically did not significantly affect the PUAS (0.0012) so that the null hypothesis was accepted. Thus, it can be concluded that there is no causality between the PUAS and FINC variables.

4. The external debt variable statistically significantly affected FINC (0.22) so that the null hypothesis was rejected while FINC statistically did not significantly affect the external debt (0.0072) so the null hypothesis was accepted. Thus, it can be concluded that there is a one-way causality between the external debt and FINC variables, that is, only external debt variables have a statistically significant effect on FINC and not vice versa.

5. JUB variable significantly affects Inflation (0.33) so that the null hypothesis is rejected while Inflation is statistically significant affecting JUB (0.47) so that the null hypothesis is rejected. Thus, it can be concluded that there is a two-way causality between the JUB and Inflation variables, namely the JUB and Inflation variables which have a statistically significant influence on each other.
6. PUAS variable significantly affects inflation (0.76) so that the null hypothesis is rejected while inflation significantly affects PUAS (0.11) so that the null hypothesis is rejected. Thus, it can be concluded that there is a two-way causality between the PUAS and Inflation variables, namely the PUAS and Inflation variables which are statistically significant affecting each other.

7. External debt variable significantly affects inflation (0.16) so that the null hypothesis is rejected, while inflation significantly affects external debt (0.39) so that the null hypothesis is rejected. Thus, it can be concluded that there is a two-way causality between the external debt and inflation variables, namely the external debt and inflation variables have a statistically significant influence on each other.

8. The PUAS variable statistically did not significantly affect JUB (0.0034) so that the null hypothesis was accepted while JUB statistically did not significantly affect PUAS (0.0018) so that the null hypothesis was accepted. Thus, it can be concluded that there is no causality between the PUAS and JUB variables.

9. The external debt variable statistically did not significantly affect the external debt (0.0090) so that the null hypothesis was accepted, while the JUB statistically did not significantly affect the external debt (0.0002) so the null hypothesis was accepted. Thus, it can be concluded that there is no causality between external debt and JUB variables.

10. The external debt variable statistically did not significantly affect PUAS (0.0033) so that the null hypothesis was rejected while PUAS statistically significantly affected external debt (0.45) so that the null hypothesis was accepted. Thus, it can be concluded that there is a one-way causality between external debt and FINC variables, namely that only the PUAS variable has a statistically significant effect on external debt and does not apply otherwise.

**Interpretation Vector Error Correction Model**

(VECM) Analysis Results Based on the long-term VECM estimation results, the FINC, JUB, and ULN variables significantly affect inflation at a significant level of 5%. The FINC variable has a significant positive effect on inflation, namely 12.83059%, which means that if FINC increases it will increase inflation by 12.83059%. The JUB variable has a significant positive effect on inflation, which is 76.53707%, which means
that if JUB increases, it will increase inflation by 76.53707%. External debt variable has a significant negative effect on inflation, which is 105.4368%, which means that if external debt increases, inflation will decrease by 105.4368%. The PUAS variable has an insignificant negative effect on inflation, namely 1.804530%, which means that if PUAS increases it will reduce inflation by 1.804530%. Thus it can be concluded that the variables of Islamic Bank Financing (FINC) and the Money Supply (JUB) have a positive effect in the long term, which means that increasing these variables will increase inflation while the Islamic Interbank Money Market and Foreign Debt variables have a negative effect in the long run. length which means the increase in these variables will reduce inflation.

CONCLUSION

The results of the study indicate that in the long term the variables of Islamic Bank Financing (FINC) and the Total Money Supply (JUB) have a positive influence on inflation in Indonesia while the Islamic Interbank Money Market variable (PUAS) and External Debt (ULN) have a negative effect in the long term on inflation.

In the short term, inflation is significantly affected by inflation itself while the variables of Islamic Bank Financing (FINC), Islamic Interbank Money Market, Total Money Supply (JUB), and External Debt (ULN) have no significant influence on inflation.

Increasing Islamic Bank Financing has a positive effect in the long term which means it will increase the rate of inflation growth. This could be due to the fact that Islamic Bank Financing will help business actors in business expansion when the demand for the goods they produce increases. This capital can be used by business actors to add employees and increase employee salaries, purchase new machines and assets, and open new business branches.

The increase in the Islamic Interbank Money Market has a negative effect in the long term which means it will reduce the rate of inflation growth. This can happen because when the government implements a contractionary monetary policy to suppress inflation, the fee on monetary policy instruments such as SBI and SBIS will also increase.

The increase in the money supply has a positive effect in the long term which
means it will increase the rate of inflation growth. This can happen because the Money Supply reflects the amount of money circulating in the community.

REFERENCES


