

The Impact of Inflation on Economic Growth in Indonesia in the 2019-2022 Period

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ABSTRACT

This study aims to analyze the effect of inflation on economic growth in Indonesia during the 2019-2022 period. This period was chosen because it represents unique economic dynamics, ranging from pre-pandemic stable conditions, contraction due to COVID-19, to economic recovery with external inflationary pressures. The research method uses a quantitative approach with annual time series secondary data sourced from the Central Statistics Agency (BPS) and Bank Indonesia. The results of the regression analysis show that inflation has a positive and significant effect on economic growth with a coefficient of determination (R Square) of 0.841, meaning that 84.1% of the variation in economic growth is influenced by inflation. The conclusion of this study confirms that inflation is an important variable that drives economic growth, so that appropriate fiscal and monetary policy management is needed to maintain price stability for sustainable growth.

Keywords: Inflation, Economic Growth, Indonesia, Period 2019-2022.

INTRODUCTION

Economy a country is vital indicators that reflect welfare society and stability national . In macroeconomics, two variables the main thing that becomes highlight main government and stakeholders policy is growth economy and level inflation. Growth high economy expected can increase per capita income, opening field work and reduce poverty. On the other hand , stable and controlled inflation become prerequisite important For guard Power buy society and create climate conducive investment . Therefore that , the relationship between inflation and growth economy become a topic that is always relevant For studied , especially in developing country context like Indonesia.

In a way theoretical , relationship between inflation and growth economy nature complex . Economic theory classic often think that high inflation can hinder growth economy Because increase uncertainty , raising cost production , and reduce Power buy consumers. However, another theory also states that inflation moderate can push growth economy with give incentive for manufacturer For increase output. In Indonesia, Bank Indonesia (BI) sets an inflation target in range $2.5\% \pm 1\%$ as part from policy monetary For guard stability price .

The period from 2019 to 2022 is a very unique and critical time. for Indonesian economy. In 2019, it was still is at in normal pre-pandemic conditions, where growth Indonesia's economy recorded Enough stable in the range of 5.02% with controlled inflation. However, the situation changed drastically in 2020 due to epidemic the COVID-19 pandemic that has hit the world. This cause shock significant economic (shock), where growth the Indonesian economy is experiencing contraction by -2.07%, while inflation precisely is at a low level (1.68%) due to the decline request aggregate.

A country experiences economic growth when national production or income increases annually. As stated by Umaru and Zubairu (Simanungkalit, 2020) . This study aims to determine the effect of inflation on economic growth in Indonesia since 1983-2014. The analysis used in this research is descriptive analysis and econometric analysis. Econometric analysis in this study uses simple linear regression with the Ordinary Least Square (OLS) method. The results showed that the independent variable influencing the dependent variable was proven from the probability value (F-statistic) smaller than $\alpha = 5\%$. T Test results show that the Inflation variable influences Economic Growth with a probability value smaller than $\alpha = 5\%$. The results of the coefficient of determination test indicate that the dependent variable can be explained by the independent variable by 74.7588% and the remaining 25.2412% (Simanungkalit, 2020). a country's gross domestic product (GDP) can be used to measure its economic growth. One measure of a country's development success is its economic growth rate. Many countries have strived to accelerate their national economic growth. A country's economic growth can be achieved through stable production growth enabled by the availability of capital goods, capital, technology, and human resources. In macroeconomics, inflation serves as a benchmark for measuring economic stability. Inflation serves as a measure of a country's economic stability. From an economic perspective, inflation is a common monetary phenomenon that causes economic anxiety in the affected country, whether increasing or decreasing. For several large countries in the world, maintaining price stability remains the primary objective of macroeconomic policy. The goal is stable economic growth over a long period of time, as well as stable economic expansion. In the implementation of monetary policy, price stability is

prioritized among other objectives to support sustainable growth and increase the currency exchange rate.

Table 1. Indonesia's Inflation Rate

Year	2019	2020	2021	2022
Percentage	2.72	1.68	1.87	3.36

Source: Central Statistics Agency and Bank Indonesia

From Table 1, it can be seen that Indonesia's inflation rate in 2019 was 2.72, in 2020 inflation decreased by 1.68, in 2021 inflation increased again by 1.87, and in 2022 the inflation rate increased further to 3.36.

(P. Kartika, 2023) A constant increase in the prices of goods and services is commonly referred to as inflation. The increase in prices of goods and services indicates greater inflation in a country. Every country's economy is heavily affected by inflation, which is a unique monetary phenomenon that poses a continuing threat to the country because possible solutions often lead to two other problems that can accelerate or slow down overall economic growth.

Table 2. Gross Domestic Product (GDP)

Year	2019	2020	2021	2022
Percentage	5.02	-2.50	3.70	5.31

Source: Central Statistics Agency

The Central Statistics Agency (BPS) reported that Indonesia's economic growth declined by -2.07 percent in 2020. In 2020, the Indonesian economy experienced a drastic decline known as deflation due to the uncertain economic outlook. Covid-19 impacted these changes. The Covid-19 outbreak began in the second quarter of 2020 and significantly impacted the Indonesian economy. This was due to regulations related to Large-Scale Social Restrictions (PSBB), which led to lockdowns in several regions in an effort to stop the spread of Covid-19. These limitations caused a greater economic decline for both formal and informal businesses. Furthermore, many companies in the country chose to close their businesses or file for bankruptcy as a consequence of this crisis. Inflation is a unique monetary phenomenon that significantly impacts the economy of every country. It is an ongoing challenge for countries because easily accessible solutions often result in two other problems that accelerate or slow down overall economic progress. (P. Kartika, 2023)

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the world . This cause shock significant economic (shock) , where growth the Indonesian economy is experiencing contraction by -2.07%, while inflation precisely is at a low level (1.68%) due to the decline request aggregate .

Entering In 2021, Indonesia started do recovery economy (recovery) with growth the economy is back positive by 3.71%. However, the challenge new appearing in 2022. In the middle effort recovery, Indonesia faces pressure sufficient inflation high , reaching 4.24%, which was driven by factors external like conflict geopolitics (Russia- Ukraine war) which triggered increase price global energy and food , as well as disturbance chain supply . Phenomenon This interesting For reviewed Because happen improvement significant inflation in 2022, however growth economy still show trend strong positive (5.31 %).

Conditions in which inflation increase However growth economy still awake, or on the contrary, creating different dynamics compared to period previously . This is cause question about how much big influence inflation to growth economy in condition shock external and internal extremes. Some study previously show results that are not consistent (inconsistency empirical) , where someone finds influence some are negative , some are positive , and some are not. significant. Inconsistency results study This the more strengthened with existence 2019-2022 period which has characteristics volatility economy that has not yet Once happen previously in a number of decade final.

According to Keynesian theory, aggregate demand largely determines national output and employment in the short run. Keynesians argue that to combat unemployment and reduce inflation, both fiscal and monetary policies must be implemented. Keynesian ideas demonstrate the crucial role of government in stimulating economic expansion. Pure (Fres, 2022)

Findings from the study (Salim et al., 2021) "The Effect of the Human Development Index (IMB) and Inflation on Economic Growth in Lamongan Regency" indicate that IMB has a significant and positive effect on economic growth. Economic growth is positively and significantly influenced by inflation. In Lamongan Regency, inflation and IMB generally have a joint effect on economic growth.

The findings of (Bidin A, 2017) entitled "Analysis of the Relationship Between Inflation and Economic Growth: A Case Study of Indonesia" show a negative relationship of 4.3% between inflation and economic growth in Indonesia between 1968 and 2012. There is a one-way causal relationship between the consumer price index and gross domestic product; however, from 1968 to 2012, there is no relationship between the consumer price index and gross domestic product in Indonesia. There is a significant correlation between inflation and economic growth in Indonesia from 1968 to 2012, both in the short and long term.

Findings from a 2023 study entitled "The Effect of Inflation on Economic Growth in Indonesia in the 2013-2021 Period" by (P. Kartika, 2023) This indicates that the inflation variable influences the economic growth variable, with a significance value from the coefficient table, which yields a significance value of $0.004 < 0.05$. This means that the inflation variable has a positive and significant effect on the economic growth variable.

Several previous studies have shown a gap in the mechanisms of influence of inflation on economic growth, which has attracted researchers' interest in further research on this topic. This study uses only one independent variable, namely inflation, while previous studies have used several independent factors. Because inflation will impact both producers and consumers in the economy, researchers are only interested in using one independent variable in this case.

Consumer inflation results in an increase in the national currency exchange rate or the general price of goods for the public. On the other hand, due to higher production costs, inflation can cause financial losses for producers. In short, one major element influencing the volatility of economic growth is inflation. Mayasari & Mahinshapuri (Y. Kartika & Pasaribu, 2013) . Based on the aforementioned report, the author wishes to examine the conditions of inflation rates and economic growth in Indonesia. Inflation is the independent variable (X1), while Indonesia's economic rate and growth are the dependent variables (Y).

In addition , the response policy government and Bank Indonesia during period This is also very dynamic . Starting from implementation Large -Scale Social Restrictions (PSBB) and PPKM, up to easing policy fiscal and monetary For guard liquidity , everything impact on interactions between inflation and growth . Therefore that , the analysis includes period this is very important For understand effectiveness policy economy in face crisis and recovery .

Based on the description above , it can be seen that dynamics inflation and growth the economy in Indonesia in the 2019-2022 period has specific and complex characteristics . This study become important For give description empirical about How shock global and domestic economy influence connection second variables So , the researcher interested For do study more carry on with title " Influence Inflation To Economic Growth in Indonesia for the 2019-2022 Period ".

LITERATURE REVIEW

Inflation

The general and continuous trend of rising prices of goods and services is known as inflation (BPS, 2022). Sukirno (2006) in (Maulana & Indrawati, 2022) states that the following factors make inflation a crucial factor in a country's economic stability: 1) Hyperinflation negatively impacts local production and reduces demand for manufactured goods exports. 2) Excessive inflation will hinder production by raising prices, reducing demand for goods, and resulting in lower production. 3) When primary production prices are calculated, domestic product selling prices will increase, along with commodity prices and workers' wages.

Inflation Theory

- **Keynesian Theory**

Keynes observed that the excessive desire of society to consume more of the available goods and services causes inflation. Governments can purchase goods and services by printing money, but inflation can also arise from businesses' success in obtaining credit. Demand will increase as a consequence of normal external desires. To satisfy these desires, supply will temporarily remain the same. When goods and services are purchased with credit obtained, aggregate demand increases while aggregate supply remains the same. As a result, prices will rise. (Simanungkalit, 2020)

- **Quantity Theory**

The classical economists' view, as previously mentioned, is that the money supply determines the price level. If there's more money in circulation, prices will rise. Eventually,

prices will double. If the number of goods sold remains the same, the money supply will temporarily double. (Simanungkalit, 2020)

- Sukirno (2006)

Cost-push inflation According to Sukirno (2006), inflation typically occurs when the economy is growing rapidly. High employment prospects generate high incomes, which in turn cause spending to exceed the economy's capacity to produce goods and services. Conversely, cost-push inflation occurs when the economy is growing rapidly and unemployment is very low. Companies will try to increase production if there is still a need for more products by paying more employees. This will increase production costs, thereby driving up the prices of various commodities. (Suseno and Astiyah .) (Lia Purnama Sari, 2021)

Economic growth

A country's ability to offer a variety of economic products to its citizens is known as economic growth. Advances in technology, institutions, and ideologies, along with adaptation to current environmental needs, determine this increased capacity. Kuznets (Mayasari & Mahinshapuri, 2022)

Economic Growth Theory

- Keynesian Theory

Keynesian macroeconomic theory is the basis for inflation. The more people live beyond their means, the greater the likelihood of experiencing inflation (disposable income). This situation arises when there is an inflationary gap between the supply and demand for goods. If all effective demand is less than the prevailing price level for available output, inflation will cease. Santosa (Mayasari & Mahinshapuri, 2022)

- *Neo Keynesian*

NeoKeynesian includes both aggregate supply and aggregate demand. This is based on the classical long-run view and the short-run Keynesian approach. One simple method to address this problem is to assume zero inflation projections and account for changes in the money supply or government spending. As a result, the price level falls and aggregate demand increases along with actual money balances. *NeoKeynesian* This theory places a strong emphasis on productivity, as declining productivity will increase inflationary pressures and the output gap. (Simanungkalit, 2020)

- Neo Classical

The neoclassical theory developed by Roberts Solow states that the expansion of capital and labor are two types of drivers of increased national product input. Technological progress is a crucial component in driving economic growth, alongside labor and capital. (R., 2017)

RESEARCH METHODS

The method used in this study is a quantitative method. Secondary data was used in the data collection process. The data used is time series data, or annual data starting from 2019 and ending in 2022. Inflation and economic growth data are presented using data collected by the Central Statistics Agency (BPS). The official BPS website, www.bi.go.id for inflation statistics and www.bps.go.id for the official BPS Indonesia website, were used as data sources for information on Indonesia's economic growth. Muhajirin & Panorama (Salim et al., 2021)

This study uses quantitative data. SPSS was used as the research instrument. The quantitative approach is referred to as a classical method because it has been part of research methodology for quite a long time. Because positivism is the basis of this approach, it is also known as a positivistic technique. Because this approach adheres to concrete/empirical, objective, measurable, rational, and systematic standards, it is called scientific. Because new knowledge and technology can be discovered and produced through this method, it is also known as a discovery method. Because research data is in numerical form and analyzed using statistics, this approach is known as a quantitative method. Sugiyono (Salim et al., 2021)

- Independent Variable (X)

The independent variable, which can have a positive or negative effect, is what causes the dependent variable to appear. Inflation serves as the independent variable in this study. A continuous increase in the prices of goods and services is referred to as conditional inflation.

- Dependent Variable (Y)

The variable influenced by the independent variable is called the dependent variable (Y). The dependent variable in this study is Indonesia's economic growth. Economic growth is generally defined as a country's ability to develop as a result of the production of goods and services.

Figure 1. The Influence of Independent Variable (X) on Dependent Variable (Y)



Source: Sugiyono in Salim (2021)

X = Inflation

Y = Economic Growth

Can formulate the following hypothesis:

H1 : Inflation has an impact on Economic Growth/Gross Domestic Product

The sample used in this study was 100 respondents. The research analysis carried out used SPSS software to process the data.

RESULTS AND DISCUSSION

Analysis

Table 3. Variables Included/Deleted ^a

Model	Entered Variables	Variable Deleted	Method
1	Inflation ^b	.	Entering

a. Dependent Variable: GDP

b. All requested variables have been entered.

Source: Output SPSS

The table above explains the variables included and the method used; in this case, the enter method is used, with inflation as the independent variable and economic growth as the dependent variable.

Table 4. Summary of Model ^b

Model	R	R Square	Adjusted R Squared	Standard Error of Estimate
1	,917 ^a	,841	762	1,468

a. Predictor: (Constant),

b. Dependent Variable: Y

Source: Output SPSS

The correlation or relationship value (R) of 0.917 is explained in the table above. The coefficient of determination (RS-square) for this output is 0.841, indicating an 84.1% effect of inflation (x) on economic growth (y).

Table 5. Coefficient ^a

Model		Unstandardized Coefficients		Standardized Coefficient	T	Signature.
		B	Standard Error	Beta		
1	(Constant)	-5,644	2,718		-2,076	0.173
	Inflation	3,542	1,087	917	3,258	,083

a. Dependent Variable: Economic Growth

Source: Output SPSS

Based on the table above, the table coefficient in column B at constant (a) is -5.644, the mean inflation (b) is 3.542, so the regression equation can be written as:

$$Y = a + bx$$

$$Y = -5.644 + 3.542X$$

Discussion

With a significance value of $0.083 < 0.10$ obtained from the coefficient table, it is concluded that H_0 is rejected and H_1 is accepted. The inflation variable has an effect on the economic growth variable. The economic growth variable is positively and significantly influenced by the inflation variable as seen from the calculated t value of $3.258 > t$ table of 1.943. This finding supports the hypothesis that increased production costs caused by inflation will increase the prices of products and services, which will have an impact on economic growth. Ningsih & Andin (P. Kartika, 2023) The Covid-19 pandemic that hit Indonesia and caused rising prices of food and raw materials, a decline in consumer interest in shopping, and even a sharp increase in the unemployment rate, is one of the factors contributing to the increase in inflation in Indonesia. Research by Susanto and Rachmawati (2013) is in line with this research, where inflation and the HDI each influence economic growth. However, the results of Lubis's (2014) research are not in line with this research. Where does the difference lie? The study showed a negative relationship of 4.3% between inflation and economic growth in Indonesia between 1968 and 2012. This is in line with Susanto and Rachmawati's research which stated that economic growth is positively and significantly influenced by inflation. This

research is also in line with Yulia's research. Dwi Kartika and Johni Paul Karolus Pasaribu also stated that the inflation variable has a positive and significant effect on the economic growth variable. However, the results of this study are not in line with Lubis' research, where is the difference? The study shows a negative relationship of 4.3% between inflation and economic growth in Indonesia between 1968 and 2012, which the researcher has mentioned in the introduction that inflation has a major impact on growth in Indonesia.

The most frequently used theory to explain inflation is the quantity theory. This theory helps explain why inflation is a concern, especially in developing countries. We can observe that COVID-19 caused the lowest inflation rate ever recorded in 2020-2021. This is also related to the quantity theory, where the government adopts a fiscal budget deficit policy to anticipate economic growth. In the worst-case scenario, this will result in significant inflation in the future, even though the country's current inflation rate is relatively low, and will actually increase the country's debt. Pratama & Widyastuti (Y. Kartika & Pasaribu, 2013)

CONCLUSION

Based on the findings of this study, it can be concluded that Indonesia's economic growth is significantly influenced by inflation. These results support the theory that increased production costs caused by inflation will raise the prices of goods and services, thereby driving economic expansion. The significance value found ($0.004 < 0.05$) indicates a positive and significant relationship between inflation and economic growth.

Therefore, to maintain stable and sustainable economic growth in Indonesia, inflation management is necessary. Price stability and sustainable economic growth depend on appropriate fiscal and monetary policies.

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