

Money Supply and Inflation in Indonesia: An Analysis of al-Maqrizi's Thought

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Abstract

Introduction to The Problem: Al-Maqrizi is a Muslim economist who is known for his work on money and inflation. al-Maqrizi argued that the circulation and creation of excessive money by the government will lead to an increase in the prices of goods and services (inflation).

Purpose/Objective Study: this study tries to analyze empirically the relationship or influence of the money supply in Indonesia on the Inflation that occurs. It aims to see the government's policy in regulating the amount of money in circulation whether it is in accordance with the needs of the community or not, or even the creation and circulation of money causes inflation.

Design/Methodology/Approach: This research is a quantitative study using a descriptive statistical approach to data processing. The data used is secondary data, namely data in the form of money supply and inflation that occurred in Indonesia during the last 32 years (1992 - 2023), the data collection technique used is documentation by collecting data from statistical reports from Bank Indonesia and the Central Bureau of Statistics of Indonesia, as well as books and journals relevant to the research conducted. Data analysis techniques used are correlation and regression.

Findings: From the results of data processing, it is concluded that the circulation of money has no effect on inflation in Indonesia. When viewed from the theory put forward by Al-Maqrizi, it can be concluded that the creation or circulation of money circulation that occurred in Indonesia in the last 32 years did not cause inflation, this can be interpreted that the circulation of money in Indonesia by the government is in accordance with the needs of transactions or economic activities in Indonesia, so as not to cause inflation.

Keywords: money supply, inflation, Al-Maqrizi

Introduction

Inflation is a condition where there is an increase in the overall price of goods and services and occurs continuously. (Solikin M. Juhro, Ferry Syarifuddin, 2020) it can be understood, the keywords for inflation are the first increase in prices occurs in general, meaning that the price of goods or services that rise not only one or two types of goods but an increase in the price of goods and services almost as a whole. The second keyword occurs continuously, meaning that the price increase that occurs is not just a moment or at a certain time but occurs over a long period of time for at least one year. Inflation results in a decrease in the real value of a currency or a decrease in the purchasing power of money itself.

This will certainly cause a loss of public confidence in the currency, so that people prefer to use their money to buy goods that are considered not to decrease in value due to inflation such as buying houses and gold, where the value can survive or even increase during inflation. (Nurul Huda, Handi Risza Idris, Mustafa Edwin Nasution, 2018)

One of the causes of inflation according to al-Maqrizi is the *excessive* printing of currency (*excessive sigonore*), (Awaluddin, 2017; Latif & Syauqoti, 2023) which causes the circulation of currency or the amount of money in circulation is very much. (Siregar & Masri, 2019) when the amount of money in circulation increases in the community it will increase the overall demand (*aggregate demand* increases) if not accompanied by the amount of production or supply of goods it will result in an increase in the prices of goods (inflation). al-Maqrizi is an Islamic economic thinker who conducted a special study of money and inflation, as well as correlate it with inflation events that occur in a country.

The theory presented by al-Maqrizi is in line with what was presented by Western (conventional) economists such as Milton Friedman of the monetarist group who said that the main factor causing inflation is the large amount of money in circulation in society. So according to him to overcome inflation is to reduce the amount of money circulating in the community. Then the classical and neoclassical also highlighted the effect of money supply on inflation, where according to them in the long term or short term the increase in the amount of money in circulation will push up prices. Therefore, in general, an increase in the money supply will lead to an increase in inflation. Although in the long run it will be able to encourage increased production. But when hyper inflation occurs where inflation exceeds 100%, it will cause people to lose confidence in money and money can no longer fulfill its function as a medium of exchange, a means of storing value and a unit of calculation. An economy that experiences *hyper* inflation will cause the economy to return to a barter economy because people will no longer want to hold money. (Yuliadi, 2019)

Muslim economists suggest some bad consequences of inflation for the economy, namely: 1) inflation causes disruption of the function of money itself, 2) inflation weakens the spirit of the people to save (*marginal propensity to save* decreases), 3) inflation increases the tendency of people to spend mainly on luxury goods rather than for basic needs (*marginal propensity to consume* increases), and 4) inflation directs investment in unproductive things by accumulating wealth (*hoarding*) such as land, buildings, precious metals, foreign currencies that are higher in value by setting aside investment in productive directions such as agriculture, industry, trade and so on. (Karim, 2014; Muhamad, 2020)

Inflation caused by an increase in circulation or the amount of money in circulation is also called a monetary phenomenon, so that steps can be taken by the government is to regulate the amount of money circulating in society through monetary policy. Monetary policy is a policy carried out by the government in order to regulate the amount of money circulating in society so that inflation does not occur. Because regulating the amount of money circulating in the community is expected to maintain price stability, including maintaining the value of the currency itself so that there is no decline from time to time caused by inflation. In Indonesia, monetary policy is carried out by the government through Bank Indonesia. In Indonesia, there has been double-digit inflation or inflation above 10%, even touching 77.6% in 1998, where this figure is a type of severe inflation, which resulted in a drastic decrease in people's purchasing power. Then double-digit inflation also occurred in 2001 and 2002, where the inflation rate at that time was 12.55% and 10.3%, then in 2005 inflation touched 17.11%, while the amount of money in circulation in Indonesia always increases every year based on data obtained from Bank Indonesia. For this reason, based on the theory of money and inflation delivered by al-Maqrizi and the phenomenon of inflation that occurred in Indonesia, this study tries to quantitatively analyze the

relationship between the two variables based on the theory delivered by al-Maqrizi. This study was conducted to determine the relationship or correlation and the influence between the circulation of money (money circulation) with inflation that occurred in Indonesia, based on the theory of money and inflation delivered by Al-Maqrizi. It is useful to know whether the monetary policy conducted by the government through Bank Indonesia has been able to maintain the stability of prices and the stability of the value of the currency and prevent the occurrence of very bad inflation.

So far, previous research that discusses inflation caused by an increase in circulation or money supply in Indonesia is mostly studied based on conventional economic theory by looking at the effect of money supply on inflation in Indonesia. (A. Mahendra, 2016; Ambarwati et al., 2021; Ningsih & Kristiyanti, 2019; Prasasti & Slamet, 2020) while previous research on inflation from an Islamic economic perspective, especially from the thinking of al-Maqrizi, is mostly discussed conceptually or theoretically. (Alwa & Wahyudi, 2022; Awaluddin, 2017; Kurniawati, 2019; Latif & Syauqoti, 2023; Siregar & Masri, 2019). No research has been conducted empirically to test whether the theory presented by Al-Maqrizi regarding the relationship between money supply and inflation occurs in Indonesia or not. This study tries to analyze how inflation and money creation in Indonesia are analyzed using al-Maqrizi's theory which suggests that one of the causes of inflation is the creation or circulation of excessive money in a country.

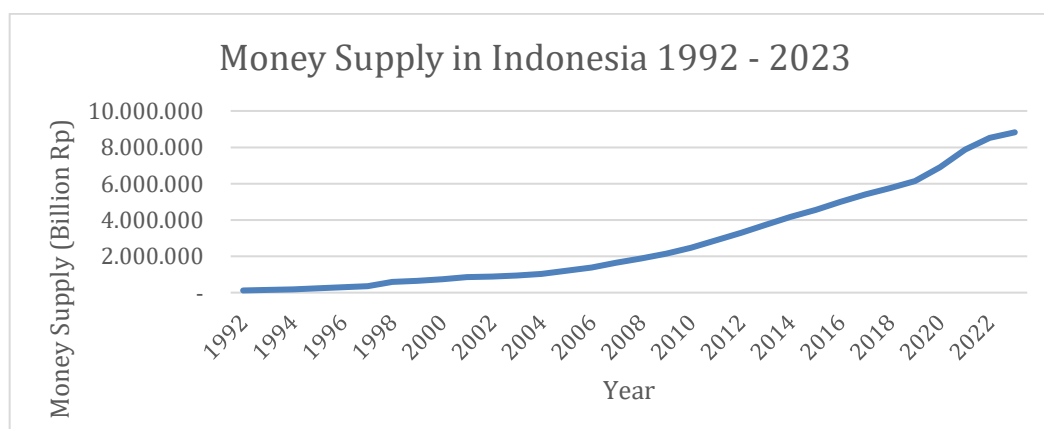
Methodology

This research is a quantitative study using a descriptive statistical approach as a data analysis tool, the data used in this study are secondary data obtained from the badan Pusat Statistik (BPS) and Bank Indonesia in the form of money supply data and Indonesian inflation data. The data used is secondary data in the form of time series data on Indonesia's money supply and inflation from 1992 to 2023. The data collection method used is the documentation method by collecting BPS and Bank Indonesia reports on Indonesia's money supply and inflation, as well as looking for books or *literature reviews* that are in accordance with the problems studied. The data analysis used is descriptive statistics by looking for correlations and the influence of money supply on inflation, then the results obtained will be analyzed in accordance with the theory presented by Al-Maqrizi regarding the relationship between money circulation and inflation.

Results and Discussion

As explained earlier, the circulation of money in a country is known as the money supply. Where the money supply is the total amount of money used in the economy in a country at a certain period, or all existing money supply or created by the central bank and commercial banks used in a country's economy. From the data collected from 1992 to 2023 (for the last 32 years) the development of circulation or money supply in Indonesia and its growth can be seen in the following graph:

Figure 1. Chart of Money Supply in Indonesia from 1992-2023



Source: processed data

Based on the graph above, it can be seen that the circulation of money in Indonesia is always increasing every year. With an average increase in the money supply of 2,837,659 billion rupiah or 15.32% each year. This means that every year the government through the monetary authority always adds to the creation and circulation of money every year on average by 2,837,659 billion rupiah.

Then to analyze whether the creation and circulation of money carried out by the Indonesian government has an effect or impact on rising prices of goods, in accordance with the theory put forward by Al-Maqrizi, that the creation or circulation of excessive money will result in an increase in prices or a decrease in the value of the currency itself, the following data will be displayed inflation that occurred in Indonesia from 1992 to 2023 as follows:

Table 1. Inflation rate in Indonesia, 1992 – 2023

No	Year	Inflation (%)	Inflation Rate	No	Year	Inflation (%)	Inflation Rate
1	1992	4,94	-	17	2008	11,06	67,83%
2	1993	9,77	97,77%	18	2009	2,78	-74,86%
3	1994	9,24	-5,42%	19	2010	6,96	150,36%
4	1995	8,60	-6,93%	20	2011	3,79	-45,55%
5	1996	6,50	-24,42%	21	2012	4,30	13,46%
6	1997	11,10	70,77%	22	2013	8,38	94,88%
7	1998	77,60	599,10%	23	2014	8,36	-0,24%
8	1999	2,00	-97,42%	24	2015	3,35	-59,93%
9	2000	9,40	370,00%	25	2016	3,02	-9,85%
10	2001	12,55	33,51%	26	2017	3,61	19,54%
11	2002	10,03	-20,08%	27	2018	3,13	-13,30%
12	2003	5,16	-48,55%	28	2019	2,72	-13,10%
13	2004	6,40	24,03%	29	2020	1,68	-38,24%
14	2005	17,11	167,34%	30	2021	1,87	11,31%
15	2006	6,60	-61,43%	31	2022	5,51	194,65%
16	2007	6,59	-0,15%	32	2023	2,61	-52,63%

Source: Bank Indonesia and BPS

Based on the table above, it can be seen that inflation that occurred in Indonesia from 1992 to 2023 fluctuated greatly, where the highest inflation occurred in 1998, which amounted to 77.6% where

the inflation rate or increase from the previous year almost reached 600%. Where at that time there was a monetary crisis or a very severe economic crisis in Indonesia. while the lowest inflation occurred in 2020, namely 1.68% where the price decline or inflation rate fell from the previous year by 38.24%. In that year there was also a Covid-19 pandemic disaster that hit almost all countries in the world.

Figure 2. Inflation rate in Indonesia from 1992 - 2023



Source: processed data

From the above graph it can also be seen how inflation fluctuations have occurred in Indonesia over the past 32 years. It can also be seen that a very significant change or spike in inflation occurred in 1998, where inflation almost touched 80%, where inflation that occurred at this level was known as severe inflation.

To find out whether the increase in circulation or circulation of money in Indonesia resulted in an increase in the prices of goods or inflation, based on the theory put forward by Al-Maqrizi, the money supply data will be correlated and regressed with inflation data that occurred in Indonesia and obtained the following results:

Table 2. Coefficient of determination test results

<i>Regression Statistics</i>	
Multiple R	0,3047422
R Square	0,092867809
Adjusted R Square	0,062630069
Standard Error	12,67942153
Observations	32

Source: processed data

Based on the correlation test and regression test conducted, obtained a correlation value of 0.30 which states that the relationship between the money supply with inflation is very low. Meanwhile, when viewed from the coefficient of determination, the value of r^2 is 0.09 or 9%, meaning that the influence of the money supply is very small on inflation in Indonesia. Furthermore, to prove the hypothesis of a theory is done t test or significance, the results obtained as follows:

Table 3. Significance Test Results

		<i>Coefficient</i>	<i>Standard</i>		
		<i>s</i>	<i>Error</i>	<i>t Stat</i>	<i>P-value</i>
t	Intercep	12,856641	3,285209	3,9134921	0,0004840
		36	46	29	6
	X	-1,48331E-	8,46399E	-	0,0899042
	Variable 1	06	-07	1,75249964	22

Source: processed data

Based from the value of the statistical t test or significance test, the significance value is 0.08 where this value is greater than 0.05, which means that there is no effect of money supply on inflation in Indonesia. The results of this study are also supported by previous research conducted in order to see the effect of money supply on inflation in Indonesia, it was also found that the money supply has no significant effect on inflation in Indonesia. (A. Mahendra, 2016; Kalalo et al., 2016; Perlambang, 2017) Inflation that occurs in Indonesia is caused by other factors such as pressure from the supply side or known as cost push inflation, this is caused by several factors such as the decline in the rupiah exchange rate and the impact of foreign inflation that affects the country.

If analyzed based on the theory put forward by Al-Maqrizi that when there is excessive printing or circulation of currency it will lead to inflation, then this does not apply in Indonesia, judging from the results of the data analysis obtained it can be concluded that the Indonesian government through its monetary authority has set the creation of money and regulate the circulation of money in accordance with the needs of the community and economic activity, so that although the circulation of money circulation increases every year but does not cause inflation or price increases. Because one of the solutions or preventing inflation according to Islamic economics is to adjust the amount of money in circulation with the real economy (amount of production) in a country's economy. (Hariyanto, 2019; Mulyani, 2020; Parakkasi, 2016; Siregar & Masri, 2019)

Conclusion

Based on the results of data processing carried out on the relationship or influence of money circulation on inflation that occurred in Indonesia in the last 32 years, it was found that the increase in money supply in Indonesia each year did not cause inflation. this can be interpreted that the circulation or the amount of money in circulation in Indonesia is still in the good category and is not harmful to the economy because it does not cause price increases or inflation. The increase in the money supply each year could have been triggered by an increase in economic activity in Indonesia or an increase in the population in Indonesia. Thus increasing the demand or need for money itself. For this reason, it is hoped that the Indonesian government can always maintain the circulation and circulation of money in order to create price stability. This study uses only one independent variable, namely the money supply to determine the causes of inflation, while according to al-Maqrizi there are many other factors that cause inflation, including natural inflation caused by reduced production due to disasters, the increasing population of a country. Then other causes of inflation decreased al-Maqrizi is the presence of human error such as corruption and poor administration. This can be a reference for future researchers to be able to develop this research further.

Acknowledgment

The preferred spelling of the word “acknowledgment” in America is without an “e” after the “g.” Avoid the stilted expression “one of us (R. B. G.) thanks ...”. Instead, try “R. B. G. thanks...”. Put sponsor acknowledgments in the unnumbered footnote on the first page.

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