# Macro : Inflation And Economic Stability In Islam

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***Abstract***.
*Inflation is a frequent conversation, both in economic meetings and in income-raising talks. Inflation in a country cannot be eliminated, it can only be minimized by indicators held by the government. In this study, it will discuss inflation and economic stability in Islam. This research is a descriptive qualitative research with a Library approach, and is narrated according to the needs of the formulation to be addressed. The results of this study show that the conventional perspective states that the causes of inflation are cost push, demand pull, and mixed (mixed). Meanwhile, the Islamic paradigm emphasizes that inflation is the result of natural error and human error.*

***Keywords :*** *Inflation, Economic Stability, Islamic Economy*

## I. INTRODUCTION

Inflation is not a new thing in the economic world, where inflation is a discussion that often arises, especially when talking about the scope of Islamic macroeconomics. Inflation in the economic world provides a negative thing for the purchasing power and level of public welfare, both in a country and in the world. This is due to weak economic efficiency and productivity, rising capital costs, investment, and unclear income. Before going into too much depth about inflation, researchers will explain what inflation really is. According to R.Mc. Connel and Stanley, inflation as a rise in the general level of price, means that inflation is an increase in prices in general, ranging from goods or commodities to services in a certain period [1] while according to Bank Indonesia, inflation can be interpreted as an increase in the price of goods and services in general and continuously over a certain period of time. Deflation is the opposite of inflation, namely the general and continuous decline in the price of goods [2]. From the above understanding, it can be seen that inflation is a price increase that occurs as a whole, be it in a country or the world, in a periodic way. If an item or two that has increased, but does not have an impact on the price of other goods, it does not cause inflation, but if the goods are basic goods and can result in an increase in other goods that is called inflation.

The discussion about inflation is the first discussion that will be discussed when a country has a meeting on the economy, because inflation is one of the indicators in analyzing economic growth, income, poverty, and import exports in a country. In a country or the world, inflation is a problem that often occurs, even in Indonesia, inflation has occurred until it touched 70% in 1998. If you look back at 1998, it will find things that caused the rise in inflation in Indonesia, including the depreciation of the rupiah exchange rate, the economic crisis and expectations of high inflation. In this case, the way is done in controlling inflation by applying monetary policy. Where monetary policy is carried out by the monetary authority by involving the monetary variable itself, then the money supply and interest rate of Bank Indonesia Certificates and exchange rates. Monitoring inflation in Indonesia usually uses the Kosumen Price Index or what is called the CPI, where changes in the CPI from time to time can describe an increase in inflation or deflation of goods and jara in a country. So if a country wants to maintain the rate of inflation, of course, the government must suppress prices. Or by reducing the pace of the existing money supply, such as limiting lending or by increasing interest rates.

In Indonesia, inflation in the last five years has fluctuated, which of course is due to economic stability, even in 2021 inflation can be suppressed to 1.87% as of December 2021. But in 2022 until now, the inflation rate continues to increase, this certainly makes people feel the increase in goods produced by the community. The inflation data in the last five years are as follows:

**Table 1.** Inflation in Indonesia

| No | Moon | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| 1 | January | 3.25% | 2,82% | 2,68% | 1,55% | 2,18% |
| 2 | February | 3,18% | 2,57% | 2,98% | 1,38% | 2,06% |
| 3 | March | 3,4% | 2,48% | 2,96% | 1,37% | 2,64% |
| 4 | April | 3,14% | 2,83% | 2,67% | 1,42% | 3,47% |
| 5 | May | 3,23% | 3,32% | 2,19% | 1,68% | 3,55% |
| 6 | June | 3,12% | 3,28% | 1,96% | 1,33% | 4,35% |
| 7 | July | 3,18% | 3,32% | 1,54% | 1,52% | |
| 8 | August | 3,2% | 3,49% | 1,32% | 1,59% | |
| 9 | September | 2,88% | 3,39% | 1,42% | 1,6% | |
| 10 | October | 3,16% | 3,13% | 1,44% | 1,66% | |
| 11 | November | 3,23% | 3% | 1,59% | 1,75% | |
| 12 | December | 3,13% | 2,72% | 1.68% | 1,87% | |

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From the data above, it can be seen that over the past five years, inflation has decreased, where in 2018 it reached 3.13%/ December, while in 2021 it decreased to 1.87%/ December. But after that, inflation experienced a significant increase, touching the figure of 4.35%/ June 2022. When analyzed, this inflation occurs due to the high cost of goods in the community, and the weakening of the rupiah exchange rate. Looking back at the increase in inflation that occurred in 1998, where many companies closed their businesses. Not only that, many financial institutions also reduce employees, even to the point of closing the financial institutions that are run. This is due to the decline in profits obtained by financial institutions, and of course many people are flocking to withdraw their money to meet basic needs that are too high.The decline in profit that occurs in conventional financial institutions, is a component that is often talked about by the public, but in this know there is also one bank or financial institution that continues to show its existence in the midst of the crisis that has hit Indonesia, namely Islamic financial institutions, or Mumalat banks. In 1998, bank muamalat continued to show its existence, where many of the conventional financial institutions closed the company, while bank muamalat was able to continue to provide financing to the public. Bank muamalat, which uses sharia principles, continues to try to help the community with a profit-sharing system [12]. At that time, all communities, be it academics or researchers tried to conduct research on the resilience of muamalat banks in times of crisis, until finally found that Islamic banks or muamalat banks could survive because they applied sharia principles to their operations.

If you look back at the time of the Messenger of Allah, this inflation is not something that has never happened, but in that era if it happened not so long as it is today, until it happened until the year. This makes the author want to write back about the concept of inflation used in the time of the Prophet, or in other words the author will explain about inflation and stability in the Islamic economy. But previously the researcher will explain about the researches that have been done before, which will certainly be a reference material for the author. The studies related to inflation and Islamic economic stability are as follows:

*First,* Fadilla conducted a study in 2017, with the title "Comparison of Inflation Theory in An Islamic and Conventional Perspective" in completing the research carried out, researchers used the Literature study approach, with the results obtained. As for the results obtained, that the Islamic economy is trying to replace the impact of inflation, the Islamic economy recommends changing paper currency (fulus) to gold and silver again and banning excessive imports so as not to strangle domestic producers themselves. The solutions offered by the convent economy include implementing monetary, fiscal and non-monetary policies [3].

*Second,* Reni Mulyani, conducted a study in 2020, with the title "Inflation and How to Overcome It in Islam" the method used in the research The method in writing this article is to use literature studies with a descriptive-analytical qualitative approach. In general, inflation is caused by the large number of public demand for goods, the increase in production costs, and the circulation of money in society is very high. Meanwhile, according to Al- Maqrizi Taqyudin (1996: 412), in islamic economics inflation is caused by natural inflation (naturally) and human errorr inflation (by humans). In conventional economics, the way to overcome inflation is to implement monetary policy, fiscal policy, non-pandemic policy. Meanwhile, in Islam Inflation is overcome by printing money with low/minimal amounts, implementing the Dues Idle Fund strategy, and implementing fiscal policy [4].

*Third*, Idris conducted a study in 2016, entitled "Inflation in an Islamic Perspective" the method used in this study, using the Literature study approach, the results found that In the view of Muslim economists, inflation can cause disturbances, weaken people's enthusiasm for saving, increase shopping tendencies, and direct people to invest in the non-productive sector. How to prevent this by using monetary, fiscal, and output policies carried out by the government and improving the moral behavior of officials and society [5].

*Four*, Nirmadar, conducted a research in 2022, with the title "Literature Study of Islamic Monetary Policy Without Interest" the method used by researchers, namely a descriptive qualitative method by analyzing previous studies from journals of various countries. The assertion that interest-free Monetary Policy can make inflation have a positive impact on the economy and the function of the central bank is not only to maintain price stability but also prosperity for all people and to use existing contracts in the Islamic economy in its operations [6].

The previous research is certainly research that is no less important than the research you want to do, so for that the previous research is a reference to conduct or complete the research to be carried out. So for that, here researchers conducted a re-research on inflation and economic stability in Islam.

## II. METHODS

The method used in this study is descriptive analysis research with literature studies, and uses skunder data in the form of books assembled with discussions and published journals. After the collection of related books and journals, the researcher will classify them, and narrate them so that they become an outcome that can answer from the formulation of the problem or problem raised.

## III. RESULT AND DISCUSSION

In simple terms, inflation can be said to be a general and continuous increase in prices. But When the increase occurs to only two or three goods, it is not called inflation, unless the increase has an impact on the increase in the price of other goods. In a country, inflation is an opening in an economic meeting, where this inflation cannot be eliminated, it can only be minimized. Hamilton (2001) inflation has been widely described as an economic situation when the increase in the supply of money is " faster " than the production of goods and services in the same economy. The inflation rate is measured as a percentage change in the price index (consumer price index, wholesale price index, producer price indexand others). Essien (2005) argues that the consumer price index (CPI) measures the price of representative baskets of goods and services purchased by the average consumer and is calculated on the basis of periodic surveys of consumer prices. An indicator often used to measure the rate of inflation is the Consumer Price Index (CPI) [7]. As is known, the consumer price index is an index that calculates the average price change of a good and service consumed by a household over a certain period of time. In this case, the consumer price index can be categorized as a basic need, which of course will be used by the community every day. Usually, this Consumer Price Index is calculated based on the price of a set of household-related goods, such as foodstuffs, clothing, boards and of course many more [8].

As discussed above, inflation is not a new thing in a country, and of course this inflation cannot be avoided by any country, and can only be minimized for its circumstances. It is known that, if inflation does not exist in a country, then it will certainly create a problem as well, which is due to the coming of the delepation. Depletion is the opposite of inflation, if inflation is that many prices of basic necessities increase and the value of money increases, while the depletion of prices of basic necessities decreases and the value of money also decreases. That means, a country cannot abolish inflation, it can only make inflation more stable or stagnant. In general inflation is caused by two things, firstly, the pull of demand (excess liquidity of the medium of exchange), and secondly, it is caused by the insistence on production and includes the lack of distribution. Excess liquidity of exchange instruments is an advantage caused by the large amount of money supply in the community, resulting in a decrease in the currency exchange rate in the country. Meanwhile, the lack of distribution is a fairly high demand for goods, but it is not balanced by sufficient production, so that the goods experience a regular increase.

In the Islamic economy the word inflation does not exist, because the dinars and dirhams are used as a medium of exchange, which of course have an intrinsic value that will not experience a tremendous decline. This is in accordance with the research conducted by Riani, that the cycloscript is not expressed in the Koran or hadith. Where inflation is a problem that occurs at this time, which is caused by the desire of people who consume excessively. So before the occurrence of inflation or the emergence of the word inflation, the Koran has remembered it, where is Q.S. Ali-Imrah (3) : 14

That is to say: "Made to be beautiful in man's view the love of what he desires, namely the women, the saplings, the many treasures of the kinds of gold, silver, the chosen horses, the beasts of the cattle and the fields of the fields..."

The above verse, corroborated by the hadith of the History of muslim bukhari, which means "It is very wretched to the one who is enslaved by treasure (capital), whether in the form of mas money (dinar), silver money (dirham), or others."

From the above verses and hadiths, Allah has reminded people to be careful with the treasures, gold and silver possessed. Because it is possible that humans want to have it in large quantities, so that they can use methods that are not recommended in Islam, and of course this will also later have an impact on a country, where humans will try to enrich themselves by means of corruption. Where this corruption is also an indicator in calculating the factors causing inflation in a country. Al-Maqrizi divided Inflation into two types, namely Inflation due to reduced inventory and Inflation due to human error. In the time of the Prophet, inflation occurred due to a decrease in the supply of goods due to drought and war. There are three kinds of inflation caused by human error, namely corruption, poor administration and excessive taxes, and also the printing of a lot of money. According to islamic economists Inflation causes a country's economy to be bad, namely as follows:

1. Causes disruptions to the function of money, especially the savings function (deposit value), the upfront payment function, and the calculation unit function. Inflation also causes self-feeding inflation.
2. Causing people to be reluctant to save.
3. Encourage people's behavior to shop, especially towards goods that are not basic necessities and tertiary goods.
4. Directing investment to non-productive things, namely the accumulation of wealth (hoarding), such as land, buildings, precious metals, foreign currency at the expense of investment in productive directions such as agriculture, industry, trade, and transportation.

In islamic economics, the strategy of dues idle funds or taxes on disturbing funds is also used in suppressing inflation figures that occur. Where the Islamic monetary policy carried out by Bank Indonesia is mandatory minimum demand deposits at Bank Indonesia, the amount of which is set at a certain percentage of third party funds. The third party funds are in the form of wadiah current accounts, mudharabah savings, mudharabah investment deposits, mudharabah investment certificates between Islamic banks and Indonesian bank certificates.

According to some Islamic economists, there are several ways to reduce the inflation rate that occurs, including the following:

1. Abdul Qodim Zallum in his book the financial system in the caliphate stated that " the monetary system based on gold and silver is the only monetary system that is able to solve the great inflation that afflicts the whole world, and is able to realize the stability of exchange rates, and can encourage the progress of international trade [9].
2. Ban on imports if indeed domestic production is still sufficient.

This had happened during the reign of caliph Umar ibn Khattab r.a. At that time caravans of merchants who sold their goods abroad bought from abroad less in value than what they sold (positive net export). The existence of positive net exports will make profits, profits in the form of excess money will be brought into Medina so that people's income and purchasing power will increase. An increase in Aggregate demand (AD ↑), or on the chart depicted as AD shifting to the right, will result in an increase in the overall price level (P ↑) [10].

What did caliph Umar ibn Khatab r.a do to address the issue? He forbade the residents of Medina to buy commodity goods for 2 consecutive days. As a result, aggregated demand (AD↓) decreases in the economy. After the ban expires, the price level returns to normal [11].

## IV. CONCLUSION

Inflation is not a new change or heard by the public, but implation is a mandatory discussion for every country, to minimize the existing inflation rate. Inflation in a country cannot be eliminated, it can only be minimized. There are several factors that cause inflation that occur if the conventional perspective, states that the causes of inflation are cost push, demand pull, and mixed (mixed). Meanwhile, the Islamic paradigm emphasizes that inflation is the result of natural error and human error. So if a conclusion is drawn for the stability of a country's economy, which will certainly have an impact on the country, it must make changes to the value of currencies or the intrinsic value of currencies that use gold and silver. As it is known that the exchange rate indicator greatly affects the existing inflation rate.

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