

Analysis of Inflation Dynamics and Economic Growth in Post-Pandemic Indonesia: An Islamic Economics Perspective

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ABSTRACT

Keywords:

Return on Assets (ROA); Return on Equity (ROE); Sharia Stock Prices;

Background: This study aims to analyze the dynamics of inflation and economic growth in Indonesia during the post-pandemic period (2019–2024) by integrating conventional macroeconomic and Islamic economic perspectives.

Method: The research employs a quantitative approach using regression and descriptive analysis based on secondary time-series data obtained from Bank Indonesia, BPS, the World Bank, and the IMF. The variables analyzed include inflation, economic growth, money supply, interest rates, government expenditure, tax revenue, exchange rates, and stock market indices.

Results: The results indicate that the relationship between inflation and economic growth is complex and non-linear. Moderate inflation is found to stimulate economic growth, particularly during the post-pandemic recovery phase, whereas high inflation tends to hinder growth in the long run. Additionally, the growth of money supply has a significant impact on inflation, which in turn negatively affects economic growth, reflecting a trade-off between monetary expansion and economic stability.

Conclusion: The findings also show that maintaining inflation stability within the range of 2–3% is crucial for sustaining economic growth. From an Islamic economic perspective, inflation control is not only aimed at maintaining macroeconomic stability but also at achieving distributive justice and social welfare in line with the principles of maqashid al-shariah. Therefore, optimal economic policy should integrate economic efficiency with the values of justice and balance to create a sustainable economic system.

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INTRODUCTION

Macroeconomic stability is a fundamental prerequisite for ensuring the sustainability of a country's economic development. Two key indicators commonly used to assess such stability are the inflation rate and economic growth. In the context of Indonesia, the dynamics of these two indicators have become increasingly complex since the emergence of the global crisis triggered by the COVID-19 pandemic, which placed significant pressure on national economic activity. The pandemic not only caused economic contraction but also disrupted both the supply and demand sides, ultimately leading to simultaneous fluctuations in inflation and economic growth (Ambarwati et al., 2023).

In the post-pandemic period, Indonesia's economy has entered a recovery phase marked by increasing economic activity. However, this condition remains overshadowed by macroeconomic uncertainty. Movements in macroeconomic variables such as inflation, interest rates, money supply, and exchange rates have become important determinants influencing the direction of economic growth, both in the short and long term (Febrianti et al., 2025). This indicates that macroeconomic analysis cannot be conducted in isolation but must consider the interrelationships among variables comprehensively.

Theoretically, the relationship between inflation and economic growth remains a subject of debate in economic literature. Several studies suggest that low and stable inflation can stimulate economic activity through increased consumption and investment. In contrast, high and uncontrolled inflation tends to reduce purchasing power, increase economic uncertainty, and hinder economic growth (Sujatmiko et al., 2025; Meiditambua et al., 2023). Therefore, inflation exhibits a dual nature, acting both as a driver and an impediment to economic growth, depending on its level and stability.

Empirical findings also indicate that the relationship between inflation and economic growth is not linear but rather contextual, influenced by the stability of monetary and fiscal policies as well as a country's domestic economic structure (Mentalita et al., 2026).

In the Indonesian context, various empirical studies show that monetary variables such as money supply have a significant influence on inflation. Meanwhile, other variables such as interest rates and exchange rates tend to have indirect or relatively limited effects (Aminulloh et al., 2024). This condition suggests that the transmission mechanism of monetary policy to price stability does not always operate in a linear manner, particularly in post-crisis economic conditions.

On the other hand, from an Islamic economics perspective, inflation stability is not viewed merely as an economic issue but also as part of efforts to achieve social justice and public welfare. High inflation can erode the real value of wealth, particularly for low-income groups, thereby contradicting the principle of distributive justice in Islamic economics. Therefore, inflation control within the framework of Islamic economics is not only aimed at maintaining macroeconomic stability but also at ensuring the achievement of *maqashid al-shariah*, particularly in the protection of wealth (*hifz al-mal*) and the realization of economic balance.

Based on the above discussion, a comprehensive analysis of the dynamics of inflation and economic growth in Indonesia during the post-pandemic period is necessary using an integrative approach, combining conventional macroeconomic and Islamic economic perspectives. This study is important as it not only provides empirical insights into the relationship between these two variables but also offers a normative framework for formulating more equitable and sustainable economic policies.

METHOD

The Relationship Between Inflation and Economic Growth

In macroeconomic studies, inflation and economic growth are two key variables that are closely interrelated, yet their relationship is complex. Inflation is defined as a sustained increase in the general price level of goods and services, while economic growth refers to the rise in national output or Gross Domestic Product (GDP) over a certain period.

Theoretically, the relationship between these two variables is not linear but is influenced by the level of inflation, the expectations of economic agents, and the structural conditions of a country. Various studies in the literature indicate that inflation can act both as a driver and a constraint on economic growth, depending on its magnitude and stability (Situmorang and Siahaan, 2024).

Low Inflation (Mild Inflation) as a Driver of Economic Growth

A number of empirical studies in Indonesia indicate that low and stable inflation (mild inflation) can have a positive impact on economic growth. This condition occurs because moderate inflation reflects an increase in aggregate demand, which in turn encourages producers to expand production capacity and investment.

The literature review reveals that: (1) low inflation can enhance incentives for production and investment activities, (2) stimulate economic activity through increased household consumption, and (3)

serve as an indicator of healthy demand within the economy. As highlighted in empirical studies, controlled inflation can promote productivity and investment in an economy (Sujatmiko et al., 2025).

These findings are consistent with studies based on Indonesian data, which show that moderate inflation tends to have a positive relationship with economic growth, particularly in the short term and under stable economic conditions (Hasdiana et al., 2023). Therefore, within the framework of macroeconomic policy, inflation is not always detrimental but can function as an instrument of economic stabilization when maintained within an optimal range.

High Inflation and Its Negative Impact on Economic Growth

In contrast, numerous studies indicate that high and volatile inflation has a significant negative impact on economic growth, particularly in the long run.

Several mechanisms explain the adverse effects of inflation, including: (1) a decline in purchasing power, (2) increased economic uncertainty, (3) reduced investment due to higher risk, and (4) distortions in resource allocation.

Empirical evidence from Indonesia also shows that: (1) inflation has a negative and significant effect on economic growth in the long term (Nufus et al., 2025), and (2) high inflation can trigger economic instability and hinder economic expansion (Mukarramah et al., 2025). These findings emphasize that uncontrolled inflation can undermine the foundations of sustainable economic growth.

Implications for Economic Policy (Macroeconomic and Islamic Perspectives)

Empirical findings on the relationship between inflation and economic growth indicate important strategic implications for the formulation of economic policy, both from conventional and Islamic economic perspectives.

Monetary Policy

From a macroeconomic perspective, the central bank plays a crucial role in maintaining price stability through the implementation of credible and well-calibrated monetary policy. Inflation stability is a key prerequisite for achieving sustainable economic growth. Low and stable inflation has been proven to foster a conducive investment climate, preserve purchasing power, and reduce economic uncertainty.

Conversely, excessively low inflation may lead to a slowdown in economic activity due to weakened aggregate demand, while excessively high inflation can trigger macroeconomic instability, including reduced investment and increased economic risk. This is consistent with empirical findings indicating that the relationship between inflation and economic growth is non-linear, with an optimal inflation threshold that must be maintained by monetary authorities (Sujatmiko et al., 2025).

Other studies also emphasize that controlling inflation through monetary instruments, such as managing the money supply and interest rates, has a significant impact on economic stability and long-term growth (Mukarramah et al., 2024). Therefore, effective monetary policy must be able to balance the objectives of price stability and economic growth.

Islamic Economics Perspective

From an Islamic economics perspective, price stability is not merely viewed as an economic objective but also encompasses strong moral and social dimensions. High inflation can erode the real value of wealth, particularly for fixed-income groups, thereby contradicting the principle of distributive justice (*al-'adl*) in Islam.

Empirically, various studies in Islamic economics indicate that uncontrolled inflation can exacerbate economic inequality and reduce overall social welfare. This occurs due to unfair redistributive effects, where low-income groups are the most adversely affected (Ariyani et al., 2024).

Furthermore, within the framework of *maqashid al-shariah*, inflation control is closely related to the protection of wealth (*hifz al-mal*) and the achievement of economic balance (*tawazun*). Therefore, price stabilization policies in Islamic economics are not only technocratic in nature but also normative, aimed at promoting inclusive and equitable social welfare.

Other studies also suggest that integrating macroeconomic policies with Islamic financial instruments, such as zakat, sukuk, and profit-and-loss sharing systems, can serve as an alternative approach to maintaining economic stability while simultaneously reducing structural inflationary pressures (Susilawati and Wibowo, 2025).

Policy Synthesis

Inflation control should be positioned as part of a holistic economic development strategy. In the conventional economic perspective, it focuses on maintaining macroeconomic stability and promoting economic growth, while in the Islamic economic perspective, it is directed toward achieving social justice and improving public welfare. Therefore, an optimal inflation policy should not only consider economic efficiency but also integrate the values of justice and balance within the economic system.

Based on theoretical and empirical studies, it can be concluded that: (1) inflation has a complex and non-linear relationship with economic growth, (2) low levels of inflation can stimulate economic growth, (3) high inflation consistently hinders economic growth, and (4) inflation stability is a key factor in achieving sustainable economic growth.

Thus, optimal economic policy should aim to maintain inflation at a moderate and stable level while integrating principles of justice within the Islamic economic framework.

Empirical studies in Indonesia show that inflation can have a positive impact on economic growth when maintained at a low level (mild inflation) (Cili and Alkhaliq, 2022). However, in the long run, inflation tends to have a negative effect on economic growth (Dea and Fuddin, 2025).

This analysis uses secondary time-series data for Indonesia covering the period 2019–2024. The data are obtained from official sources such as Bank Indonesia, BPS Indonesia, the World Bank, and the IMF. The variables examined include the inflation rate, economic growth, money supply, interest rates, government expenditure, tax revenue, the exchange rate of the Indonesian rupiah against the US dollar (IDR-USD), and the stock market index. This study employs a quantitative approach using regression and descriptive analysis methods, supported by a literature review from reputable economic journals (Mentalita et al., 2026).

RESULTS AND DISCUSSION

Inflation and Growth Dynamics (2019–2024)

The period 2019–2024 represents a highly critical phase in Indonesia's macroeconomic dynamics, as it encompasses three main stages: (1) economic contraction due to the COVID-19 pandemic, (2) the economic recovery phase, and (3) post-crisis macroeconomic stabilization.

In this context, the relationship between inflation and economic growth is dynamic and not always linear. Several recent studies indicate that inflation has a significant impact on Indonesia's economic growth during this period. A study by Mentalita et al. (2026) reveals that, statistically, inflation influences economic growth, particularly as price fluctuations reflect the process of economic adjustment following the pandemic crisis. Furthermore, the study emphasizes that inflation does not always hinder growth but can also reflect the recovery process and the normalization of production and consumption activities.

Thus, during the economic recovery phase, inflationary pressures are often a consequence of rising aggregate demand and improving economic activity.

The Role of Money Supply and the Inflation Transmission Mechanism

Within the framework of the quantity theory of money, the growth of the money supply is one of the key determinants of inflation. Empirical findings from various studies in Indonesia indicate a strong relationship between monetary variables, inflation, and economic growth.

Sipahutar (2024) found that: (1) the growth of money supply has a positive and significant effect on inflation, with a coefficient of 1.0468, and (2) inflation has a negative effect on economic growth, with a coefficient of -0.2637 . These findings suggest that monetary expansion can drive price increases (inflation), but rising inflation tends to suppress economic growth over a certain period. Moreover, the

study also shows that although money supply growth can stimulate economic growth, it simultaneously generates inflationary pressures that may lead to economic shocks if not properly managed.

Trade-Off Between Monetary Expansion and Economic Stability

Based on these empirical findings, it can be concluded that there is a trade-off between monetary expansion and economic stability, namely: (1) monetary expansion can be understood as a policy that increases the money supply, thereby enhancing liquidity in the economy. This condition encourages higher consumption and investment, which ultimately contributes positively to economic growth; (2) its subsequent impact is inflation, reflected in a general increase in the prices of goods and services, which reduces purchasing power. In the long run, this condition has the potential to hinder economic growth.

Thus, excessively expansionary monetary policy may create a policy dilemma—stimulating growth in the short term while posing risks to stability in the long term. These findings further reinforce the view that the relationship between inflation and economic growth is non-linear and contextual, particularly in the post-crisis period.

Analytical Synthesis

Based on recent empirical literature in Indonesia, the dynamics of inflation and economic growth during the 2019–2024 period can be summarized as follows: (1) inflation has a significant effect on economic growth, (2) inflation is not always detrimental, especially during the economic recovery phase, (3) growth in the money supply is a key driver of inflation, (4) rising inflation tends to suppress economic growth, and (5) there is a trade-off between monetary expansion policies and economic stability. Therefore, optimal macroeconomic policy should aim to balance economic growth stimulus with inflation control.

Recent studies indicate that inflation significantly affects Indonesia's economic growth and does not always act as a barrier, but can also reflect the process of post-crisis economic adjustment (Mentalita et al., 2026). Meanwhile, Sipahutar (2024) finds that money supply growth significantly increases inflation (coefficient 1.0468), while inflation negatively affects economic growth (−0.2637). This indicates the presence of a trade-off between monetary expansion and economic stability.

Determinants of Macroeconomic Factors

Several variables have been found to influence Indonesia's economic growth, including: (1) inflation, which has a negative impact in the long run, (2) Foreign Direct Investment (FDI), whose effect is not always significant, and (3) natural resources, which contribute positively to economic growth (Dea and Fuddin, 2025). In addition, fiscal policy in the form of government expenditure has a significant positive effect, while exports tend to show a fluctuating impact (Susilawati and Wibowo, 2024).

Macroeconomic Policy Implications

Based on empirical findings, maintaining inflation stability within the range of 2–3% is a key factor in supporting sustainable economic growth. Therefore, monetary policy must balance the growth of the money supply with price stability. Projection data indicate that Indonesia's economic growth is around 5.3%, with inflation remaining under control at approximately 2.6%. This condition reflects relatively stable macroeconomic conditions.

Analysis from an Islamic Economics Perspective

From an Islamic economics perspective, macroeconomic policy formulation should be aligned with the following fundamental principles:

1. Justice (al-‘adl)

High inflation has the potential to create unequal wealth distribution and widen social inequality within society.

2. Balance (tawazun)

Economic growth should be achieved in a balanced and proportional manner, without relying on excessive monetary expansion or speculative practices in the financial sector.

3. Prohibition of riba

Monetary policy instruments based on interest should be redirected toward mechanisms consistent with Islamic principles, such as profit-and-loss sharing systems and the use of Islamic financial instruments, including sukuk and the optimization of zakat in fiscal policy.

CONCLUSION

Research shows that integrating macroeconomic variables with Islamic welfare principles provides a more comprehensive approach to promoting economic growth.

Inflation has a complex relationship with Indonesia's economic growth. Moderate inflation can stimulate growth, while high inflation tends to be counterproductive. Indonesia's macroeconomic stability in the post-pandemic period shows a positive trend. Furthermore, the Islamic economics perspective makes a significant contribution to maintaining price stability, promoting distributive justice, and supporting economic sustainability.

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