

# CHAPTER I

## INTRODUCTION

### A. Background of Study

The Government of the Republic of Indonesia has been running many innovative programs for enhancing people welfare. Such as, to support all economic sectors with the Government funds from domestic and foreign revenue resources. The domestic resources are derived from taxes, natural resource management and state owned enterprises (BUMN) profit. Whereas, the foreign one is derived from external debt, external debt and grant or *hibah* from other countries and international organization such as: *International Monetary Fund* (IMF), World Bank and *Asian Development Bank* (ADB). Theoretically, in a stable country the development financing mostly obtained from the domestic resource not from the external one. However in developing country as well as Indonesia, external debt can be the important component to support the development.<sup>1</sup>

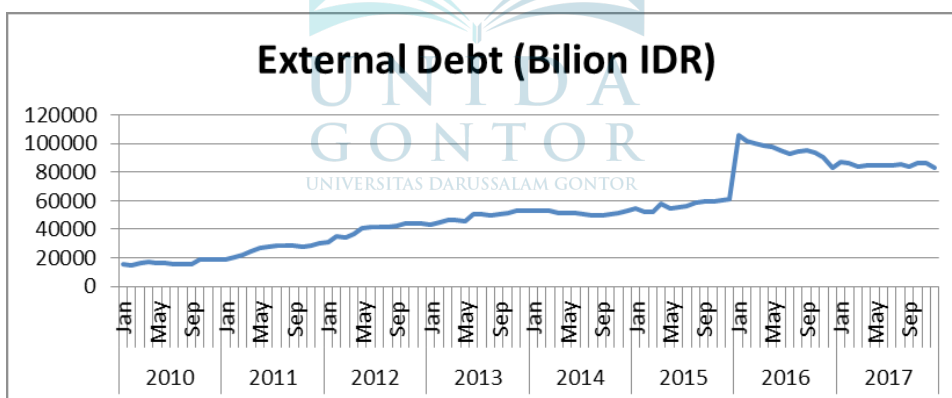


Figure 1. Central Bank of Indonesia Source: External Debt 2010-2017

<sup>1</sup> Wayu Eko Yudiatmaja, “Jebakan Hutang Luar Negeri Bagi Beban Perekonomian dan Pembangunan Indonesia”, *Jurnal Ilmiah Administrasi Publik dan Pembangunan*, Vol.3, No.1, Januari-Juni (2012), p. 453-454.

The line graph gives explanation about Indonesian external debt from 2010 to 2017.<sup>2</sup> Overall, it can be seen that Indonesian external debt shown an upward trend throughout the time period with a few downward in the last 2 years. This proved that Indonesia as a developing country can't reject external debt in order to increase funds in financing all sectors for developing their country.<sup>3</sup>

The difference in the exchange rate of a country currency (exchange rate) is in principle determined by the magnitude of the supply and demand of currencies.<sup>4</sup> This exchange rate instability affects investment or capital flows and International trade. Indonesia as a country that imports raw many materials for industry is experiencing the impact of instability in the exchange rate, which can be seen from the additional cost of production that causes the increase in the product. With the weakening of the Rupiah it caused Indonesia's economy becomes shaky and it can lead the economy into crisis as well as confidence in the domestic currency also weakened.

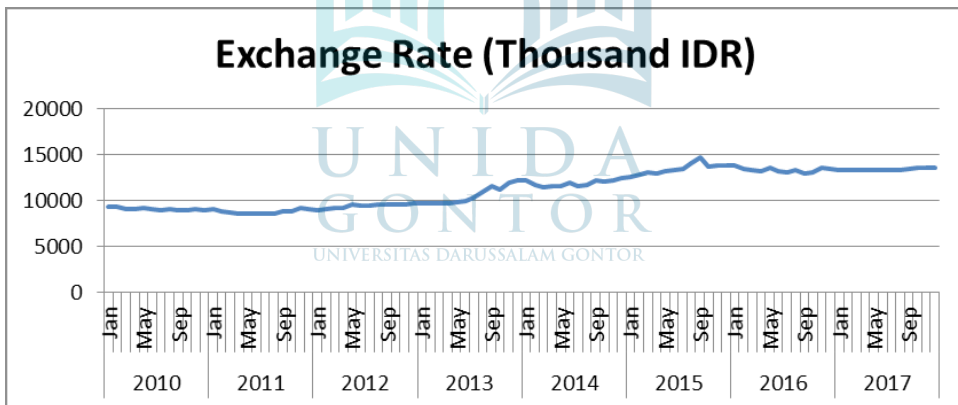


Figure 2. Central Bank of Indonesia Source: Exchange Rate 2010-2017

<sup>2</sup> <http://www.bi.go.id>. Prepared by the authors.

<sup>3</sup> Mukhlison S. Widodo dan Putri Kartika "Utami, Nasib Hutang di Ujung Tanduk", *Majalah Gatra* 12-18 Januari No. 11 (2017), p. 65.

<sup>4</sup> Maurice Levi D, *Keuangan Internasional*, Yogyakarta: Andi Offset, (2001), p. 129.

From that data source looks money in publishing or any exchange of 1 USD in Rupiah on 9 April 2018 IDR 13,771, then on the next day, April 10, 2018 USD exchange rate against the Rupiah at IDR 13,759, on April 11, 2018 of 13,747, Saturday, April 21, 2018 IDR 13,893.<sup>5</sup> Bank Indonesia as the Central Bank of Indonesia is responsible for the issuance of Rupiah. Money exchanged from dollars in IDR or otherwise and that is supposed to be circulated on 9 April 2018 per unit i.e. IDR 13,771 whereas on 21 April at IDR 13,893 by IDR 122, with the meaning of BI should print money more than IDR 122.

In the level of the Rupiah exchange rate against the dollar, as it has been explained, the very need to note, because the level of the IDR exchange rate against the dollar is weakening, if can pry into the activities of exports and imports.<sup>6</sup> When Americans are in need to exchange for dollar to the Rupiah because they want to import or purchase goods from Indonesia, Indonesia exports to America. The more dollars they earn from each unit of currency in the form of the American currency than the cheaper prices of goods Indonesia when expressed in US dollars. Every single precious IDR 13,893 is equal to 1 USD.<sup>7</sup> When Indonesia import from other countries Indonesia must possess the Rupiah as much as IDR 13,893 in every unit of the goods with the price in USD for an exchange. It triggers the problem in Indonesia's economy and monetary aspects.

Furthermore, concerning the external debt, the Rupiah exchange rate, exports and imports, those are the factors that are connected to each other. The inflation rate is a trigger of instability in a country's economy, as an example at a time when Indonesia was hit by the monetary crisis in 1997-1998 it caused the weakening of the value of the Rupiah exchange rate against the dollar. At that time the economy of Indonesia is very chaotic and expensive due to inflation.<sup>8</sup>

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<sup>5</sup> Bank official Indonesia news, accessed on April 11, 2018 at 16.23, <http://www.bi.go.id>. Prepared by the authors.

<sup>6</sup> <http://www.bi.go.id>. accessed on April 11, 2018 at 16.23

<sup>7</sup> Sadono Sukirno, *Makroekonomi Teori Pengantar*, Edisi ke-3, PT RajaGrafindo Persada, Jakarta (2015), p. 398.

<sup>8</sup> Revrison Baswir, *Manifesto Ekonomi Kerakyatan, Pustaka Pelajar*, Yogyakarta (2009), p. 69.

Overall, with the numbers those currently by 1,704, reached IDR trillion or US \$165 billion. External debt consists of IDR 732 trillion and IDR 973 domestic debt trillion.<sup>9</sup> With the issue about the external debt and the Rupiah exchange rate at the moment with its effects on the inflation rate in Indonesia, thus researchers want to examine the influence of two independent variables and one variable the dependent, with the scope of the title “**The Determinant of Inflation and its Solution in Muslim Scholars**”. The year 2010 up to 2018 is a different era with different policies. During that period of President Susilo Bambang Yudhoyono, gave more emphasizing on long-term growth of the program which is for 10 years.<sup>10</sup> While at the time of Joko Widodo, he gave is more emphasizing on debt and provide more opportunities for foreign countries to infuse capital in Indonesia.<sup>11</sup> But it was in the time of the turbulence on the level of exports and imports. The level of the Rupiah exchange rate against the dollar is very unstable with a variety of reasons that can be proved, such as the existence of a trade war between China and America.<sup>12</sup> So with this being the reason for the writer to examine the problem in terms of inflation with the factors that influence.

## B. Problem Formulation

With an explanation as described enviously, then the subject matter formulated in this research are:

1. What are the factors affecting inflation in Indonesia?
2. How does the solution according to the Muslim Scholar’s view?

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<sup>9</sup> Bank official Indonesia news, accessed on April 11, 2018 at 16.23, <http://www.bi.go.id>. Prepared by the authors.

<sup>10</sup> Amir Machmud, *Perekonomian Indonesia Pasca Reformasi*, Penerbit Erlanga, Jakarta (2016), p. 12.

*Ibid*, p. 15-18.

<sup>12</sup> Sandika Prihatnala, dkk, *Mendagang Efek Perang Dagang*, Makalah pada Majalah Gatra, Jakarta 18 Juli (2018), p. 74-76.

### **C. Research Objectives**

The shape of the outline of the problem then this research to achieve the goals and objective are the following:

1. To find out what are the factors affecting inflation in Indonesia.
2. To find out the solution according to the Muslim Scholar's view.

### **D. Purposes of Research**

By focusing research on the monetary aspect in particular is located at the level of exchange rates, external debt and import export inflation then this research seeks to:

1. For academics

Hoped that this research can provide benefits to the academics in the field of Islamic Economics and conventional as an well as activist of other economies.

2. For Institution

Can provide a view of the problem and provide solutions or suggestions from these problems in view of Islam.

3. For Society

As a mean of enhancing literacy and knowledge to find out the factors of inflation and its effects. where it has not been much understood and understandable by the general public. Apart from that, hopefully the community can face the problem of inflation and can increase economic growth in various sectors in Indonesia.

4. For Author

As an instrument of learning, need insight, as well as the application of sciences that have new and acquired in college and in the process of writing this study.

## 5. For Government

Once known the existence of the influence of external debt, the Rupiah exchange rate, the level of exports and imports, is expected to give an explanation to the Government to pay more attention to the factors the causes of the inflation rate and the factors in terms of the variable independent.

