

Stability of Money Value in Islamic Economics: Analysis of Money Supply and Inflation in Indonesia

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Abstract

The stability of currency value is one of the important principles in maintaining economic balance and social justice, as taught in Islamic sharia. This study uses secondary data obtained from official publications of Bank Indonesia and the Central Bureau of Statistics (BPS) for the period 2010–2024. The analytical method used is multiple linear regression with a quantitative approach to examine the effect of changes in the money supply (M2) on the inflation rate. The results of the study indicate that an increase in the money supply has a significant relationship with the inflation rate in Indonesia. From the perspective of Islamic economics, these results reaffirm the importance of implementing monetary policies based on the principles of justice, balance, and prohibition of usury and speculation that could disrupt the stability of the currency's value. Therefore, maintaining a balanced money supply according to the real needs of the economy becomes key to achieving currency stability in a just manner according to Islamic economic principles.

Keywords: Currency Stability; Islamic Economics; Money Supply; Inflation; Monetary Policy.

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INTRODUCTION

The stability of the value of money is a key pillar in maintaining economic balance and realizing social justice. When the value of money is maintained, economic activity remains stable, public purchasing power remains strong, and trust in monetary institutions increases. Conversely, high fluctuations in the value of money, including rapid inflation, can cause economic distortions, increase uncertainty, and widen social disparities (Afifah et al., 2019). From an Islamic economic perspective, the stability of the value of money is also closely related to the principles of justice ('adl) and welfare (maslahah), which are the foundations of the maqāshid al-syarī'ah (Fathurrahman, 2023).

In the Islamic economic system, money is not viewed as a speculative commodity, but rather as a medium of exchange and a store of value that functions to support productive real economic activity. Therefore, all monetary policy must be directed at maintaining a balance between the monetary and real sectors to prevent economic inequality. Monetary policy itself is a crucial instrument for the government or monetary authority to improve economic conditions by regulating the money supply and interest rates (Zakiyah et al., 2022). In macroeconomic analysis, the money supply has a significant influence on the level of economic output and market prices. Conventional economic systems and Islamic economic systems have different views on monetary policy (Adinda, 2024). In the Islamic monetary system, the primary objective of monetary policy is not only to maintain price stability and economic growth, but also to achieve justice (iqāmah al-'adl) and the public good (jalb al-maslahah). This aligns with the concept of balance (tawāzun), where money creation must be supported by real economic activity to prevent value inequality and violations of the principle of justice (Fathurrahman, 2023).

Theoretically, the money supply influences the value of money, as reflected in price and product levels (Luwihadi & Arka, 2017). When the money supply increases beyond the production capacity of goods and services, prices tend to rise and the value of money decreases. Conversely, if the money supply is lower than production volume, prices will fall. This situation demonstrates the importance of controlling the money supply for maintaining economic stability (Widyowati, 2022).

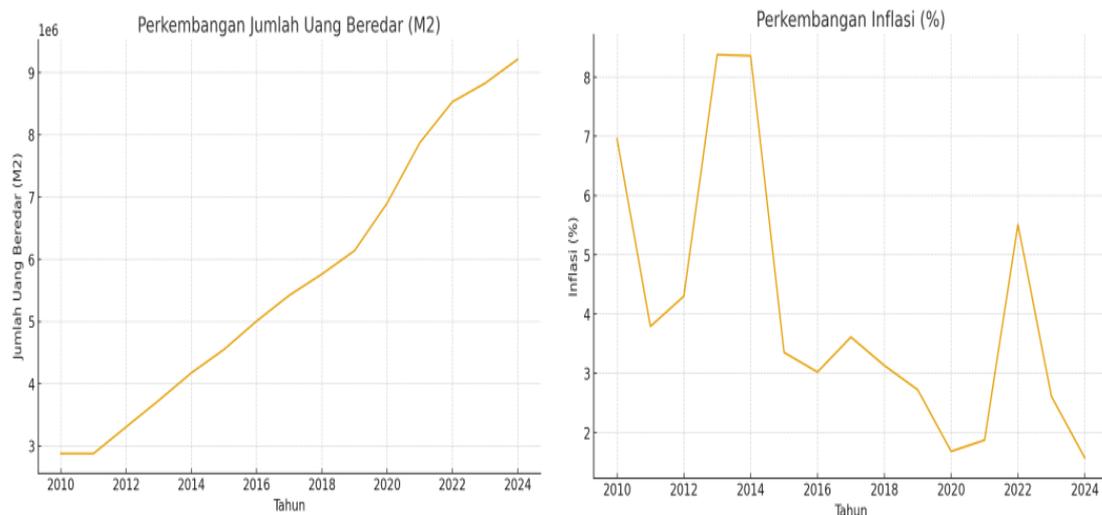


Figure. 1. Development of Money Supply (M2) and Inflation Rate in Indonesia from 2010 to 2024

The graph shows that the amount of money in circulation (M2) experienced a sharp upward trend from 2010 to 2024, reflecting liquidity expansion and economic activity growth. Meanwhile, inflation tends to fluctuate and does not always rise in line with M2: although it was high in 2013–2014, inflation then dropped significantly from 2015 to reach its lowest point in 2024. This pattern indicates that an increase in the money supply does not automatically drive inflation, as price stability is also influenced by other factors such as monetary policy, goods supply, and external conditions. Within the framework of the

quantity theory of money, an increase in the money supply is directly related to the rate of inflation. This theory states that if the growth of the money supply is not matched by an increase in real output, inflationary pressures will occur due to 'too much money chasing too few goods.' Thus, maintaining a balance between the monetary sector and the real sector becomes a key factor in ensuring price stability (Afifah et al., 2019).

From a macroeconomic perspective, inflation is an important indicator that reflects the stability and direction of a country's economic development. According to Afifah et al. (2019), inflation occurs due to a disruption in the balance between the amount of money in circulation and the quantity of goods and services available in the market. When inflation is at a high level, the prices of domestic goods and services increase, thereby reducing consumers' purchasing power and slowing down economic activity. Therefore, the amount of money in circulation must be controlled proportionally to the needs of the economy to maintain exchange rate stability and inflation levels in accordance with the principle of prudence in Islamic monetary policy.

Literature Review

Money Supply and Inflation from a Conventional Economic Perspective

Theoretically, the money supply is directly related to the inflation rate. Based on the quantity theory of money proposed by Irving Fisher, an increase in the money supply will lead to an increase in the general price level if real output growth is not commensurate. In other words, "too much money chasing too few goods" is the primary cause of inflation. In the context of the Indonesian economy, research by Adinda (2024) shows that an increase in the money supply tends to have a positive effect on the inflation rate. When people have more money, the tendency to increase consumption also increases, so that demand for goods and services rises faster than the available supply. As a result, inflationary pressures arise due to the imbalance between demand and supply (Widianita et al., 2024).

However, empirical phenomena in Indonesia in recent years have shown that the quantity theory of money does not always fully apply. According to data from Bank Indonesia and the Central Statistics Agency, although the money supply (M2) continued to increase significantly throughout the 2010–2024 period, the inflation rate actually showed a downward trend, particularly in 2023–2024. This indicates that other factors influence inflation, such as the effectiveness of monetary policy, increasingly efficient distribution of goods, and stable energy and food prices.

An Islamic Economic Perspective on Money and Inflation

In Islamic economics, money is not a commodity to be traded for profit, but rather a medium of exchange and store of value that should support real sector activities. Al-Ghazali emphasized that money has no intrinsic value and should not be used as a means of speculation. Therefore, excessive money creation without the support of productive economic activity can lead to economic imbalance and contradict the principles of justice (al-'adl) and balance (tawazun).

The study "Money Supply and Inflation in Indonesia: An Analysis of al-Maqrizi's Thought" (Widianita et al., 2024) examines this phenomenon from the perspective of classical Islamic thought. Al-Maqrizi asserted that excessive money circulation can trigger inflation if not supported by real sector growth. However, the study found that in the Indonesian context, the relationship between money supply and inflation is not always statistically significant. This suggests that structural factors and macroeconomic policies play a significant role in maintaining the stability of the value of money.

The Relevance of the Concept of Money Stability in Islamic Economics

In Islamic economics, it is important to examine how the money supply and inflation interact within the Indonesian monetary system and to what extent the application of sharia principles can provide an alternative analytical framework. Money in circulation should support real sector growth, create jobs, and improve public welfare. If money

circulates solely in financial activities without a basis in productivity, it will lead to unequal wealth distribution and the potential for unhealthy inflation.

This research seeks to:

Empirically analyze the effect of the money supply on inflation in Indonesia for the period 2010–2024, and

Interpret the findings through the lens of Islamic economics, namely maintaining money stability as part of just and balanced monetary management.

Using secondary data from Bank Indonesia and the Central Bureau of Statistics, this research is expected to provide theoretical and practical contributions to the development of Islamic-based monetary policy, where money stability is a crucial pillar in realizing economic justice and public welfare.

METHOD

Research Type and Approach

This research uses a descriptive quantitative approach with empirical analysis. This approach was chosen to statistically examine the relationship between the money supply (M2) and the inflation rate in Indonesia, which is then interpreted within an Islamic economic framework. This approach allows researchers to objectively understand monetary dynamics and link them to the principles of justice and balance in the Islamic economic system.

Data Type and Sources

The data used are secondary data obtained from:

Bank Indonesia (BI): Data on the money supply (M2) for the period 2010–2024.

Statistics Indonesia (BPS): Data on Indonesia's annual inflation rate for the period 2010–2024. The data are annual time series and presented in billions of rupiah for M2 and as a percentage (%) for inflation.

Research Variables

Independent Variable (X): Money Supply (M2)

Dependent Variable (Y): Inflation

Conceptually, the relationship between the two refers to the Quantity Theory of Money, which states that an increase in the money supply has the potential to increase the general price level. However, this relationship is re-examined from an Islamic economic perspective that emphasizes the balance between the monetary and real sectors.

Data Analysis Technique

Data were analyzed using simple linear regression to test the effect of the money supply on inflation, with the general formula:

$$y = \alpha + \beta x + \varepsilon$$

Where:

y = Inflation

x = Money Supply (M2)

α = Constant

β = Regression Coefficient

ε = Error Term

RESULT AND DISCUSSION

Based on data analysis using the Pearson correlation test, a correlation coefficient (r) of -0.646 was obtained with a significance level of 0.009 (<0.01). These results indicate a strong and statistically significant negative relationship between the money supply ($\ln X$) and the inflation rate ($\ln Y$) in Indonesia during the 2010–2024 period.

This means that when the money supply (M2) increases, the inflation rate tends to decrease. This negative relationship indicates that increased liquidity in the community does not always lead to increases in general prices; in certain contexts, it can actually support price stability. This is in line with data from Bank Indonesia and Statistics Indonesia (BPS), which show that in 2023–2024, the money supply reached its highest point, but the inflation rate was at its lowest at 1.57%.

This phenomenon indicates an anomaly with the classical quantity theory of money, which generally states that an increase in the money supply will cause inflation. However, in the context of the Indonesian economy, this relationship is not linear and can be influenced by other factors such as controlled monetary policy, efficient distribution of goods, and real sector stability.

From an Islamic economic perspective, these results reflect the importance of maintaining a balance (tawazun) between money circulation and real sector activity. An increase in the money supply accompanied by balanced growth in the production of goods and services will not lead to inflation, because money functions as a medium of exchange (wasilah al-tabādul), not as a commodity for speculation. Thus, the stability of the value of money can be maintained as long as the money supply remains productive and does not become entangled in non-real transactions.

This study uses simple linear regression analysis to determine the effect of the money supply (LnX) on the inflation rate (LnY) in Indonesia during the period 2010-2024. The results of data processing using SPSS can be explained as follows:

Coefficient of Determination (R²)

Table 1. Coefficient of Determination (R²)

Model Summary	R	R Square
	.646	.418

Based on the Model Summary table, the coefficient of determination (R²) of 0.418 indicates that 41.8% of the variation in inflation changes can be explained by the money supply (M2), while the remaining 58.2% is influenced by other variables not included in the model, such as interest rates, exchange rates, world commodity prices, and government fiscal policy. The correlation value (R = 0.646) indicates a strong relationship between the money supply and inflation, although the direction of the relationship is negative.

F Test (Goodness of Fit)

Table 2. Model Feasibility Test Result (F Test)

F	Sig
9,325	.009 ^b

The F test results in the ANOVA table show a calculated F value of 9.325 with a significance level (Sig. = 0.009 < 0.05). This indicates that the regression model used is statistically significant, indicating that the money supply variable simultaneously has a significant effect on the inflation rate in Indonesia. Thus, this regression model is suitable for further analysis.

T-Test (Partial)

Table 3. Hypothesis Test Result (t-Test)

Variables	B	Significance Value
M2	-0,868	0,009

Based on the coefficients table, the calculated t-value of -3.054 with a significance level of 0.009 < 0.05 indicates that the money supply has a significant effect on inflation. The regression coefficient for the money supply variable (LnX) of -0.868 indicates a negative

relationship, meaning that every 1% increase in the money supply will cause a 0.868% decrease in the inflation rate, assuming other factors remain constant (*ceteris paribus*). The resulting regression equation is as follows:

$$\mathbf{LnY = 14.696 - 0.868 (LnX)}$$

Interpretation of Results

These results indicate that the increase in the money supply in Indonesia during the study period did not lead to an increase in inflation, and in fact, tended to decrease it. This contradicts the quantity theory of money, which states that an increase in the money supply will increase general prices.

However, this condition can be explained by stable monetary policy, controlled interest rates, and the increasing efficiency of the distribution system and the digitization of transactions in Indonesia. Furthermore, an increase in the money supply, balanced by growth in the real sector, can maintain price stability.

From an Islamic economic perspective, this result aligns with the principle of balance between the monetary and real sectors. Money should function as a medium of exchange (*wasilah al-tabādul*), not as a speculative commodity. When money circulates in productive activities that support the real sector, an increase in the money supply will not lead to inflation that is detrimental to society.

Limitation

This study has several limitations that must be considered when interpreting the results and developing further research, including:

Limitations of Research Variables

This study only used two main variables: the money supply (M2) and the inflation rate. However, inflation can also be influenced by various other factors, such as interest rates, exchange rates, global oil prices, and government fiscal policy. The exclusion of these variables limits the scope of the analysis to broader determinants of inflation.

Simple Analysis Model

This study uses a simple linear regression model to measure the influence between the two variables. This approach provides a general overview, but is unable to capture the long-term dynamic relationship or possible two-way causality between the money supply and inflation. Further analysis such as the Vector Error Correction Model (VECM) or the Granger causality test can be used in future research for more comprehensive results.

Limitations in Integrating Islamic Economic Perspectives

Although this research attempts to link empirical results with Islamic monetary theory, the analysis remains descriptive-conceptual in nature, and does not fully explore how Islamic monetary policy instruments (such as *zakat*, the prohibition of usury, and profit-sharing financing) can play a direct role in maintaining the stability of the value of money.

CONCLUSION

Based on empirical analysis of data on the money supply (M2) and the inflation rate in Indonesia during the 2010–2024 period, we concluded that there is a significant negative relationship between the two variables. The regression coefficient value of -0.868 with a significance level of $0.009 < 0.05$ indicates that an increase in the money supply actually tends to reduce the inflation rate. These results indicate that the classical quantity theory of money does not fully apply to the Indonesian economy. Despite consistent increases in the money supply, inflation remained under control and even showed a downward trend. This condition reflects that Indonesia's monetary policy during this period was relatively effective in maintaining the stability of the currency through liquidity management, strengthening the real sector, and stabilizing the national financial system.

From an Islamic economic perspective, these results emphasize the importance of the principles of balance and monetary justice (*al-'adl al-māliyyah*). Islam rejects speculative money circulation, as it can lead to value distortion and economic inequality. On the contrary, Islam emphasizes that money should function as a medium of exchange that

supports productive activities, not as a commodity for profit-seeking through hoarding (iktināz) or usurious transactions.

Thus, the stability of the value of money in an Islamic economy depends not only on the amount of money in circulation, but also on its direction in use whether it contributes to the real sector and societal welfare, or is trapped in non-productive circulation.

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