

## Islamic Monetary Policy and Macroeconomic Stability: Inflation and Exchange Rate Control in Indonesia

Nursaman Nursaman\*, Surya Darma Syam, Ikhsanudin Ikhsanudin  
Univesitas Serang Raya, Indonesia

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### Abstract

**Purpose** – This research focuses on Islamic monetary policy as an alternative instrument in achieving macroeconomic stability in Indonesia. This study highlights the mechanism of controlling inflation and exchange rates through an approach based on sharia principles.

**Methodology** – The research methodology used in the research is descriptive-analytical. Meanwhile, considering that the nature and object of the problem in this study are mostly related to historical data and thought, the data analysis method used uses more linguistic, philosophical and historical approaches.

**Findings** – In aggregate, the results of the study show that the money supply as a representation of monetary policy, as well as macroeconomic stability, has an influence on the inflation rate and exchange rate in Indonesia. These findings indicate that monetary policy and national macroeconomic conditions play an important role in maintaining price balance and rupiah exchange rate stability. However, the results of the partial analysis show that not all variables representing monetary policy and macroeconomic stability have a significant influence on inflation in Indonesia.

**Implication** – It indicates that there are other factors outside of monetary policy, such as global economic turmoil and others. This underscores the need for strong coordination between monetary and fiscal policies, as well as efforts to strengthen the real sector to create sustainable economic stability in Indonesia.

**Keywords:** Islamic monetary policy; macroeconomic stability; inflation; exchange rate; sharia economics; Indonesia.

\* Corresponding author: [nursaman@unsera.ac.id](mailto:nursaman@unsera.ac.id)

## 1. INTRODUCTION

One of the government's policies in controlling inflation and currency exchange is the monetary policy issued by the central bank (BI) as the government's representative with public welfare in mind, in accordance with the principles of Islamic law which reads: *تصرف الامام على الرعية منوط بالمصلحة* "The leader's policy is associated with the fame of his people" (As-Suyuthi, n.d.). Because monetary policy is one of the instruments that affect inflation and currency exchange rates, both in conventional and sharia (Islamic) economics, which will directly affect the economic aspects of a country. Monetary policy means talking about money, money is something that can be generally accepted as a means of paying for debt or a tool to make purchases of goods and services. According to al-Gazali, money has an important role in economic activities. Money is one of the blessings of Allah SWT and the lifepin of the world. Therefore, money must be used in accordance with the provisions of sharia' (Al-Ghazali, n.d.).

There are four types of forms of money in the modern economy: 1) *Currency money*; which is money held and used by people daily that circulates outside financial institutions plus reserves of financial institutions, 2) *Cash flow*; which is money that is not held by the public directly, but in the form of an account issued by commercial banks with the symbol M1, 3) *Quasi-money*; namely a type of money that is relatively less liquid and its use is very tied to time or assets that can be cashed out quickly, and 4) *Electronic money*; which is a means of payment for money in electronic form that is stored in a certain medium (Bank Indonesia, 2021).

Based on Bank Indonesia data on the quarterly circulation of money in the public in 2021, the following table is available:

Table 1. Currency Circulation in 2021

| Currency Circulation 2021 : January-November (Billion Rupiah) |           |           |           |           |            |
|---|-----------|-----------|-----------|-----------|------------|
| Jan   | Feb       | Mar       | Apr       | Mei       | Jun        |
| 712529.24   | 698226.62 | 692478.03 | 732643.55 | 743534.20 | 739006.37  |
| Jul   | Ags       | Sep       | Oct       | Nov       | Total      |
| 758702.97   | 750510.11 | 748616.24 | 766703.91 | 775102.43 | 8118053,67 |

Source: Bank Indonesia (2021)

Table 2. Circulating Money in 2021

| Currency Circulation 2021 : January-November (Billion Rupiah) |            |            |            |            |             |
|---|------------|------------|------------|------------|-------------|
| Jan   | Feb        | Mar        | Apr        | Mei        | Jun         |
| 1049766.46  | 1086536.61 | 1134913.13 | 1118307.36 | 1118232.71 | 1176422.95  |
| Jul   | Ags        | Sep        | Oct        | Nov        | Total       |
| 1174588.49  | 1187879.52 | 1219818.13 | 1304713.92 | 1339651.75 | 11932931,03 |

Source: Bank Indonesia (2021)

Based on the table above, the circulation of money in the community in 2021 in the third quarter of 2021 experienced a significant increase, especially the round and quasi-money. Meanwhile, the circulation of currency in the community in the third month in 2021 also increased, especially ahead of the big days. In the first quarter, the currency circulation was IDR 2108233.89 billion, in the second quarter: IDR 3412963.02 billion, and in the third quarter: IDR 3582286.14 billion. But if you look at it from January to November, the total amount of currency in circulation: IDR 8118053.67 billion, money: IDR 11932931.03 billion.

And the circulation of electronic (digital) money in 2021 has increased significantly, as shown in the following table:

Table 3. Electronic Money Circulation (digital) in 2021

| Electronic Money Circulation 2021: January-December (Billion Rupiah) |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| Jan  | Feb         | Mar         | Apr         | Mei         | Jun         |
| 442,612,567  | 456,736,475 | 470,811,351 | 483,354,024 | 498,202,416 | 511,254,525 |
| Jul  | Ags         | Sep         | Oct         | Nov         | Des         |
| 495,280,424  | 513,968,693 | 530,664,510 | 544,192,781 | 558,959,664 | 575,323,419 |

Sumber: Bank Indonesia (2021)

Inflation is a monetary event that results in a decrease in the value of a currency for a certain good. This event will cause disruption to the function of money, price distortion, damage output, collapse efficiency and productive investment, and cause injustice and social tension. If defined, Inflation is a situation in which the price of a certain item experiences a continuous increase and lasts for a long time.

The inflation in the last year (2021-2022) based on a report from Bank Indonesia (BI) is as follows:

Table 5. Inflation Data Report for 2021-2022

| Year | Month     | Inflation |
|------|-----------|-----------|
| 2021 | January   | 1.55 %    |
| 2021 | February  | 1.38 %    |
| 2021 | March     | 1.37 %    |
| 2021 | April     | 1.42 %    |
| 2021 | May       | 1.68 %    |
| 2021 | June      | 1.33 %    |
| 2021 | July      | 1.52 %    |
| 2021 | Agust     | 1.59 %    |
| 2021 | September | 1.6 %     |
| 2021 | October   | 1.66 %    |
| 2021 | November  | 1.75 %    |
| 2021 | December  | 1.87 %    |
| 2022 | January   | 2.18 %    |
| 2022 | February  | 2.06 %    |
| 2022 | March     | 2.64 %    |
| 2022 | April     | 3.47 %    |
| 2022 | May       | 3.55 %    |
| 2022 | June      | 4.35 %    |
| 2022 | July      | 4.94 %    |
| 2022 | Agust     | 4.69 %    |

Source: Bank Indonesia (2022)

The currency exchange rate called the exchange rate is the value of one unit of currency (foreign currency) when exchanged for domestic currency. In this case, in Indonesia, the exchange rate of the Rupiah against foreign currencies, such as the exchange rate of the Rupiah against the US Dollar and other currencies. With the exchange rate of the Rupiah against foreign currencies fluctuating which automatically affects economic growth in one country. The development of the rupiah exchange rate against foreign currencies from 2019-2021 continues to decline, in the following table:

Table 6. *Rupiah* Exchange Rate Against Foreign Currencies 2019-2021

| No. | Foreign Currency  | 2019      | 2020      | 2021      |
|-----|-------------------|-----------|-----------|-----------|
| 1.  | Hong Kong Dollar  | 1 801,46  | 1 819,34  | 1 841,29  |
| 2.  | Malaysian Ringgit | 3 381,38  | 3 491,78  | 3 454,37  |
| 3.  | Dollar Australia  | 9 452,13  | 10 771,29 | 10 758,17 |
| 4.  | Singapore Dollar  | 10 324,72 | 10 644,08 | 10 652,77 |
| 5.  | Dollar Canada     | 10 614,58 | 11 019,10 | 11 420,20 |
| 6.  | Japanese Yen      | 12 877,96 | 13 647,14 | 13 039,92 |
| 7.  | US Dollar         | 14 102,00 | 14 105,00 | 14 311,96 |
| 8.  | EURO Europa       | 15 528,42 | 17 330,12 | 16 932,87 |
| 9.  | Pound Britania    | 18 204,98 | 19 085,50 | 19 690,58 |

Source: Bank Indonesia (2021)

Even from mid-2022, the rupiah continues to decline, based on Bank Indonesia's report, the peak began in October, in the following table:

Table 7 *Rupiah* Exchange Rate Against the United States Dollar 2022

| Date            | Course      |
|-----------------|-------------|
| 27 October 2022 | Rp15.573,00 |
| 26 October 2022 | Rp15.596,00 |
| 25 October 2022 | Rp15.616,00 |
| 24 October 2022 | Rp15.590,00 |
| 21 October 2022 | Rp15.610,00 |
| 20 October 2022 | Rp15.579,00 |
| 19 October 2022 | Rp15.491,00 |
| 18 October 2022 | Rp15.469,00 |
| 17 October 2022 | Rp15.480,00 |
| 14 October 2022 | Rp15.390,00 |

Source: Bank Indonesia (2021)

## 2. LITERATURE REVIEW

### 2.1 Definition of Monetary Policy

Monetary policy is a major action that the government takes through the central bank in a way that affects the creation of money (Muhayatsyah & Kamal, 2023). Monetary policy is one of the ways used by a country to control and direct macroeconomic conditions for the better, by regulating the amount of money in circulation (Irawan et al., 2025).

Another definition says that monetary policy is a way of regulating a country's money supply. Usually the authority is held by the central bank (BI) of a country (Soemitro, 2018). From an Islamic perspective, the goal of monetary policy is to maintain the stability of the currency so that equitable economic growth is achieved (Dwihapsari et al., 2021). Monetary policy aims to maintain and maintain the stability of inflation and the value of the rupiah (Ali Muhayatsyah & Kamal, 2023).

## 2.2 Definition of Inflation

Inflation is a tendency to increase the price of goods of the products of goods and services in a given period (Dwihaspari, et al., 2021). Inflation according to Taqyuddin Ahmad Ibn Al-Maqrizi (1364-1441) states that inflation occurs when prices in general experience a continuous increase. At that time the supply of goods and services was in short supply, while consumers had to spend more money on the same number of goods and services. Adiwarmarman Azwar Karim said that inflation in the Islamic economy is no different from conventional inflation (Karim, 2017). Inflation is a situation where the prices of goods in general increase and persist for a long time (Khalwati, 2000).

Inflation is a symptom of a general and continuous increase in the price of goods. Thus, inflation is a symptom that occurs due to a deliberate or natural increase in the price of goods and does not only occur in one place, but throughout the country and even the world. This price increase lasts continuously or for a long time and may increase even more if a solution to the problem that causes inflation is not found.

## 2.3 Definition of Currency Exchange

An exchange rate is the ability of a country to maintain the value of its currency consistently against other currencies, which is important for maintaining investor confidence, encouraging international trade, and attracting foreign direct investment (FDI) (Judijanto et al., 2024). An exchange rate is an exchange between two different currencies, which is a comparison of the value or price between the two currencies and this comparison is often referred to as the exchange rate. In the exchange rate, there are terms selling rate, buying rate, and middle rate (Hidayat et al., 2024).

## 3. METHODOLOGY

The research methodology used in the research is descriptive-analytical. Meanwhile, considering that the nature and object of the problem in this study are mostly related to historical data and thought, the data analysis method used uses more linguistic, philosophical and historical approaches.

The type of research in this journal is included in the type of research that uses a qualitative, not quantitative approach. A qualitative approach is used where the data to be collected is qualitative data, namely data presented in a sentence model. Qualitative research does not use statistical analysis, so it prioritizes data quality (Arikunto, 2008).

The discussion of this journal is a type of descriptive research, not an inferential one. Descriptive research only describes, expounds, writes, and reports a situation, an object, or an event of fact as it is, and in the form of revealing facts. The purpose of descriptive research is a systematic, factual, and accurate picture of the facts, properties and relationships between the phenomena being investigated, and to make a description (Nazir, 2003).

There are two sources of data: first; Primary data sources, namely sources obtained from books, interpretations, hadiths about monetary and capital markets. Second; Secondary data sources, which are supporting sources related to monetary policy, namely from journals, articles, and others.

The analysis using the author uses three approaches: first; Linguistic analysis (philological-structuralist). Second; historical and third analysis; philosophical analysis.

## 4. RESULTS AND DISCUSSION

### 4.1. Descriptive Monetary Policy

The regulation of the amount of money circulating in society is regulated by increasing or decreasing the amount of money in circulation. Monetary policy can be grouped into two: (a) Monetary expansive policy, which is a policy to overcome unemployment and increase people's purchasing power when the economy is experiencing a recession or depression by increasing the circulation of money. and (b) Monetary contractive policy, which is a policy carried out when the economy experiences inflation by reducing money circulation. Monetary policy (monetary policy) is state politics in determining regulations and actions in the field of state finance (Nabhani, 1996). Thus, monetary policy is a policy carried out by monetary authorities (central banks) in order to control monetary variables (money supply, primary money, credit and interest rates) to achieve certain economic goals that have been set.

Islamic monetary policy has different goals from conventional monetary policies, such as capitalist and socialist. Where the capitalist economy relies on market forces, socialists rely on the state as the full holder of its economic activities and policies. However, in monetary policy, Islam must be able to take responsibility for itself and the state as the last line in economic activities (Narullah, 2016). Islamic monetary policy is based on the principles of Islamic economics as follows: (a) everything that exists belongs to Allah and He is the absolute ruler because He is the supreme owner. (b) Man is not the real owner, but man is only the manager or caliph on earth. (c) Everything that man has and obtains is by Allah's permission, and therefore his less fortunate brothers are entitled to some of the wealth that his more fortunate brothers have. (d) Prohibition of hoarding of wealth. Wealth must be rotated between people. (f) Eliminate conflicts between groups, by eliminating the gap between differences between individuals in the economy. (g) To establish obligations that are mandatory and voluntary for all individuals, including for members of the poor (Karim, 2010). Technically, Islamic monetary policy must be free from the element of usury or interest (although currently it is still debated about the prohibition of interest), and then use the principle of profit sharing.

The extensive literature on monetary policy has closely analysed its effectiveness in controlling inflation and stabilising the economy. Have examined the impact of changes in interest rates and money supply on consumer spending, investment decisions, and economic activity. Moreover, previous studies. Have explored the interactions between monetary policy and financial markets, scrutinising how alterations in monetary conditions affect asset prices, capital flows, and financial stability (Loang, 2024).

Monetary policy instruments in Islam can be grouped into two: (a) Quantitative Control on the distribution of funds and (b) Methods that can ensure that financing allocation can take place well in useful and productive sectors. The monetary instruments in the conventional economy to regulate the money supply are four: (1) Open market operation (Open Mock Opration) which affects the money supply, (2) Discounto rate which affects the cost of money, (3) Reserve requirement ratio which affects the minimum amount of third-party fund obligations that must be kept, and (4) Moral persuasion which affects the actions of bankers and senior managers financial institutions in their daily business operations to be in line with the interests of the public/government.(Karim, 2010).

There are three schools of Islamic monetary instruments: (a) the Iqtiṣāduna School; the monetary instruments used are Promissory Notes or Bill Of Exchange, these letters can be used as

loans to get fresh funds, but the letters cannot be used for credit purposes. The creditor can sell the letter but the debtor cannot sell the letter. (b) Mainstream Sects; policy instruments aimed at influencing the amount of money demand (Md) so that it can be allocated to increasing economic productivity. Therefore in Islamic economics there is no demand for money (Md) for speculation. (c) Alternative Schools; monetary is based on previous deliberations with the real sector. The equilibrium that occurs in the monetary sector is a derivation of the equilibrium that occurs in the real sector. Marked by an increase in Aggregate Demand (AD), the monetary authority must also increase the money supply (MS) (Karim, 2010).

The Islamic monetary system is different from the conventional monetary system, where the conventional monetary system uses interest structures, while the Islamic monetary system uses profit loss sharing, with all parties guaranteed justice together (Irawan et al., 2025).

Islamic monetary management in monetary policy consists of two parts: (a) Money Demand Management; The demand for money in society consists of three motives: (1) For consumption, investment, exports and services, as well as imports are called transaction motives, (2) For reserves it is called a precautionary motive, and (3) For the future it is called a speculative motive. The demand for money in basic Islamic monetary is Value judgment, social, economic and political welfare, and Financial Intermediation, and (b) Money supply management; is the amount of money circulating in the community. The amount of money supply is determined by the general public, commercial banks (banking sector) and especially by the government through its central banks, both currency (cash issued by the government or central bank whose use is under the power of the general public), and money exchange (the entire value of current account balances) owned by the public, both individuals and companies and government agencies in commercial banks (Budiono, 2001).

The objectives of monetary policy in Islam are as follows: (a) Economic well-being for people with full employment opportunities, (b) Socio-economic justice and distribution of income and wealth for people, and (c) Stability of the value of the currency.

## 4.2 Descriptive Inflation

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, which is a general and continuous decline in the price of goods (Bank Indonesia, 2021). Inflation calculations are carried out by the Central Statistics Agency (BPS), linked to the SEKI-CPI metadata. An increase in the price of one or two goods alone cannot be called inflation unless it extends (or results in an increase in prices) to other goods.

Inflation in the economy is one of the monetary indicators that affects the stability of a country's economy. The cause of inflation is an increase in total demand and production costs (Nopirin, 2000). Samuelson and Nordhaus in Pratiwi (2013) said that one of the important factors for inflation is due to the rapid growth in the volume of money supply. When people's incomes increase and are followed by an increase in aggregate demand, but not offset by an increase in output produced, prices in general will rise. The occurrence of inflation is also triggered by the weakening of the rupiah exchange rate against the US dollar. The depreciation of the rupiah exchange rate against foreign currencies has resulted in an increase in the value of exports. The cheaper price of domestic goods attracted foreign parties to increase the amount of demand for their goods so that slowly the price would rise and cause inflation. According to countries that have high money growth tend to have high inflation and vice versa (Mankiw, 2006).

According to the Report Bank Indonesia, (2021) and data presented by BPS, in 2010 the Total Money Supply (JUB) decreased from the previous year (2009), from Rp. 318671.8 billion to Rp. 139217 billion. The inflation rate actually increased from 2.7% to 6.96%, this is not in accordance with economic theory.

Adiwaman Karim said inflation can be overcome by reducing  $M$  (money circulation) and  $or/V$  (speed of money circulation) or increasing  $T$  (goods traded) (Karim, 2010). For this reason, there are three policies that can be carried out to overcome Inflation, which are as follows:

First; Monetary Policy; a. Discount politics, which is to overcome inflation by raising interest rates so that people like to save and then the circulation of money in the community will decrease so that inflation will be overcome. b. Open market politics, by selling securities so that the amount of money circulating in society is reduced. c. Cash reserve politics, by increasing the cash ratio used to reduce the amount of credit provided to the public.

Second; Fiscal policy; Namely policies made by the government related to expenditures and revenues in the form of government taxes. Efforts to overcome Inflation are to reduce government spending, raise taxes, and take out government loans, by issuing SUNs.

Third; Non-Monetary and Non-fiscal Policies.

As for the Islamic economy, to overcome inflation is to encourage people's behavior to shop, especially on goods that are not basic necessities and tertiary goods, directing investment to non-productive things, namely the accumulation of wealth (hoarding), such as land, buildings, precious metals, foreign currencies at the expense of investment in productive directions such as agriculture, industry, trade, and transportation, printing with a low amount, and implementing the Dues Idle Fund strategy (Tax on idle funds), and fiscal policies.

According to al-Ghazali, there are three functions of money, namely: 1) Money as a measure of price, 2) Money as a medium of transaction, and 3) Money as a medium of storing value. So that money becomes an important thing in a country's economy, because without money no country can do anything. However, money also undergoes a change in function, there are three changes in function: 1) Commodity; that is, something that has commodity value if it is used not as money, with the provision that it must be limited, durable, and of high value, 2) token money; namely payment receipts or exchanges, and 3) Deposit money; A receipt of payment or exchange in the form of a sheet of paper representing money is called a check (Al-Ghazali, n.d.).

### 4.3 Descriptive Currency Exchange

As for currency exchange, according to Heri Sudarsono, Al-Sharf is a sale and purchase agreement of a valuta with other currencies. Foreign currency buying and selling transactions (foreign exchange) can be carried out either with fellow currencies of the same kind, for example rupiah with rupiah or non-similar, for example rupiah with dollars or vice versa. According to Nourdhaus and Sumuelsen (2004), the currency exchange rate is the price of one unit of currency in another unit of currency. The exchange rate of the Sasin currency is determined in the foreign exchange market, which is where different currencies are traded. Muhammad Al-Adnani defined Al-Sharf by exchanging money. Taqiyyudin An-Nabhani defines Al-Sharf as the acquisition of wealth with other treasures, in the form of gold and silver, which are similar by equalizing one gold with another, or between one silver and another or different types such as gold and silver, by equalizing or exaggerating one type with another (Nabhani, 1996).

The currency exchange rate is called the exchange rate is the value of one unit of currency (foreign currency) when exchanged for domestic currency. (Sukirno, 2000.) According to Mankiw (2006), the currency exchange rate between two countries is the price of the currency used by the inhabitants of those countries to trade with each other. So currency exchange (foreign exchange rate) is the price of a country's currency that is valued or expressed in another currency (Mankiw, 2006).

The forms of currency exchange are as follows: 1) Spot Transactions; Namely the purchase and sale of foreign exchange (forex) for delivery at that time (over the counter) or its settlement within a period of two days at the latest. The law is permissible, because it is considered cash, while the two-day period is considered an inevitable settlement process and is an international transaction. 2) Forward Transactions, which are transactions to buy and sell foreign currency whose value is fixed at the present time and applied for a future time, between 2 x 24 hours to one year. The law is haram, because the price used is the agreed price (muwa'adah) and the delivery is carried out at a later date, even though the price at the time of delivery is not necessarily the same as the agreed value, unless it is done in the form of a forward agreement for unavoidable needs (lil hajah). 3) Swap Transaction, which is a contract to buy or sell foreign currency at a spot price combined with a purchase between the sale of the same foreign currency at the forward price. The law is haram, because it contains elements of maisir (speculation). 4) Option Transactions, i.e. contracts to acquire rights in the framework of, and 5) Buying or selling rights that are not to be exercised on a certain number of foreign exchange units at a certain price and time frame or end date. The law is haram, because it contains elements of maisir (speculation).

Monetary policy in order to control currency exchange is carried out by the central bank (BI) as follows: 1) Open market operations; Namely the activities of the central bank in buying and selling short-term securities. If the Central Bank wants an increase in the money supply in the community, then the Central Bank will buy securities from commercial banks in the form of Bank Indonesia Certificates (SBI) and from the Government (Government Securities / SBN) and Government Bonds / SUN) and vice versa, if the Central Bank wants to reduce the amount of money supply in the community, it will sell securities to commercial banks and the public. 2) Minimum Mandatory Current Account (GWI); That is a central bank provision that requires banks to maintain a certain percentage of their current liabilities. The smaller the percentage, the greater the bank's ability to utilize its liquidity (its reserves) to provide a larger amount of loans. On the other hand, the larger the percentage, the less the bank's ability to provide loans. If the central bank lowers the reserve requirement, the credit expansion power of commercial banks will increase, so that the money supply increases. On the other hand, if the percentage is increased, then the credit

expansion power of commercial banks decreases and the money supply decreases, 3) Discount Facility; namely credit provided by the central bank to a bank in order to overcome liquidity difficulties caused by mismatch in the management of temporary funds (discount window), and 4) Moral Appeal.

Thus, how does monetary policy affect inflation and currency exchange? Where monetary policy is used as a control of inflation and currency exchange. The author tries to dig up several journals that explain about monetary policy its effect on inflation. In the short term, the money supply has a negative and insignificant influence on the inflation rate in Indonesia. Meanwhile, in the long term, the money supply has a positive and significant influence on the inflation rate in Indonesia (Langi et al., 2014). 2). Based on the results of the F test, a Prob value (F- statistic) was obtained  $< 0.05$ , which is 0.006077. Therefore, from the four variables of the money supply, the interest rate of Bank Indonesia Certificates, the unemployment rate and the foreign exchange rate together had a significant effect on inflation in East Java in 1999 - 2011. 3) Asnawi (2003); examining "The Impact of Inflation on Economic Growth in Lhokseumawe and North Aceh". From his research, it was obtained that in Lhokseumawe 1% of the increase in inflation can reduce or negatively affect economic growth by 14.9%, while the magnitude of the relationship between inflation and economic growth is 51.4%, and the rest is influenced by other variables outside the model. Furthermore, it was found that the impact of inflation on economic growth in North Aceh, namely 1% of the increase in inflation can reduce or negatively affect economic growth by 13.9%, while the relationship between inflation and economic growth in North Aceh is 40.3% and the rest is influenced by other variables outside the model. Simultaneously, the variables of the United States monetary policy, which include the Fed's interest rate, the US dollar index, and US inflation, have a significant effect on the rupiah exchange rate against the US dollar (Mengkilo et al., 2025).

The Effect of Monetary Policy to Inflation in Indonesia. The results of his research are inflation in Indonesia in 2004-2015. Data was obtained from the Central Statistics Agency as well as data from Bank Indonesia's Monthly Report. The method used in this study is to use multiple regression analysis. Based on simultaneous hypothesis tests, it shows that the money supply, exchange rate and interest rate of Bank Indonesia have an effect on inflation in Indonesia. Meanwhile, the results of the hypothesis test partially show that the variables of Money Supply and Exchange Rate have no effect on inflation in Indonesia (Dwihapari, 2021). That the money supply has a negative and significant effect on inflation in Indonesia. The negative influence here can be interpreted as when the money supply increases, inflation will decrease. On the other hand, when the money supply decreases, inflation will increase. This is because the amount of money supply in the form of money in the form of money and quasi-money such as deposits, savings, private and domestic foreign exchange accounts is quite large. Quasi-money in this form is not liquid. Even if the value is high, it is not enough to affect the country's rising economic inflation rate (Mengkilo et al., 2025).

Who reported a significant positive relationship between money supply and inflation rate, explaining that when income rises, money supply in the society increases, thus boosting purchasing power and demand, leading to inflation. This finding is also inconsistent with the quantity theory of money, which posits that inflation occurs when the money supply volume increases and that inflation subsides when there is no increase in money supply (Sari & Aji, 2025).

Thus, based on the discussion and search results of several journals above, monetary policy as an instrument to control inflation and currency exchange rates, has an effect in aggregate. Monetary policy carried out by Bank Indonesia by raising Bank Indonesia (SBI) interest rates has a positive effect on inflation and currency exchange. It means monetary policy as a control of

inflation and currency exchange. Meanwhile, monetary policy by partially controlling currency circulation has no effect on inflation.

In multiple linear regression testing, the zero (H0) hypothesis was accepted and the triple (H3) hypothesis was rejected, indicating that the JUB had no significant effect on the inflation rate. In accordance with the third hypothesis (H3), the research states that an increase in JUB in the community cannot lead to an increase in the inflation rate (Riadina & Sugianto, 2024). That the exchange rate does not have a significant influence on the inflation rate. This means that an increase in the exchange rate cannot lead to an increase in the inflation rate. In reality, this is not in line with the theory of purchasing power parity. Where this theory explains that the exchange rate between countries is determined by the relative price level, which is closely related to the inflation rate (Riadina & Sugianto, 2024).

That M2 or currency in circulation has a negative and significant effect on inflation. These findings indicate that an increase in the money supply does not automatically drive up prices, especially when the speed of money turnover decreases or when additional liquidity is absorbed more in the financial sector than it flows into the real sector (Rahmatullah, 2025). Based on the results of the OLS regression estimation, the exchange rate (EXR) has a positive coefficient, but it is not statistically significant. These findings suggest that although directional exchange rate changes tend to increase inflation, the effect is very weak and not statistically strong enough to explain the variation in inflation in the observation period (Rahmatullah, 2025).

It remains a crucial tool for anchoring inflation expectations and responding to macroeconomic shocks. However, the evidence from meta-analyses calls for a dose of humility. It compels a reconsideration of the validity of standard macroeconomic models that often predict rapid and strong responses to policy shocks. The corrected evidence aligns better with models that incorporate more frictions and rigidities (Salguero, 2025).

## 5. CONCLUSION

Monetary policy is a government policy to improve the state of the economy through the management of money supply, regulation of the money supply, and control of the money supply. Monetary policy can be grouped into two: (a) Monetary expansive policy, which is a policy in order to increase the amount of money in circulation, with the aim of overcoming unemployment and increasing people's purchasing power when the economy experiences a recession or depression, and (b) Monetary contractive policy, which is a policy in order to reduce the amount of money in circulation. It is carried out at a time when the economy is experiencing inflation.

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, which is a general and continuous decline in the price of goods. Inflation calculations are carried out by the Central Statistics Agency (BPS), linked to the SEKI-CPI metadata. An increase in the price of one or two goods alone cannot be called inflation unless it extends (or results in an increase in prices) to other goods.

According to the term fiqh, Al-Sharf is the buying and selling between similar goods or between non-similar goods in cash. Or the acquisition of wealth with other treasures, in the form of gold and silver, which are similar by equalizing one gold with another, or between one silver and another or different types such as gold and silver, by equalizing or exaggerating between one type and another.

BI Interest Rate has a positive and significant effect on the inflation rate in Indonesia. Meanwhile, the money supply and the exchange rate of Rp/US dollar have a positive and insignificant effect on the Inflation Rate in Indonesia. In aggregate that the amount of money in circulation in this case monetary policy affects inflation and currency exchange, it can be said that monetary policy is one of the instruments that control inflation and currency exchange. However, partially that the Money Supply (monetary policy) and the Exchange Rate have no effect on inflation in Indonesia, while the Bank Indonesia Interest Rate has an effect on the inflation rate.

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