

PHENOMENA OF ECONOMIC CONTRACTION IN PANDEMI TIME: Inflation, Reference Interest Rate, Rupiah Exchange Rate & Money

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ABSTRACT

A pandemic is a health phenomenon that has hit the whole world, which has had a major impact on the fabric of life, including the economy. It was recorded that in 2020, Indonesia experienced an economic contraction due to a prolonged pandemic, causing uncontrolled economic activity, for example increasing inflation, falling exchange rates, and unstable money circulation. Based on this, this research was conducted to examine various factors that caused economic instability during the pandemic. In this research in the field of economics, quantitative fundamentals form the basis of the research, and in testing it uses statistical analysis of linear regression (cause and effect). Secondary research data obtained purposively from the national statistics center. The research data in question is inflation data, reference interest rates, the rupiah exchange rate and money supply during the pandemic. The results showed that the phenomenon of economic contraction occurred during the pandemic due to abnormal money circulation in society, because at that time many people refrained from consuming and other economic activities. Coupled with the increased value of interest rates, thus making people more careful in spending money.

Keywords: Economic Phenomenon, Pandemic, Inflation, Money Circulation, Weak Exchange Rate

INTRODUCTION

Economic theory is the study of how economic agents make decisions. In economic theory, there are microeconomics and macroeconomics. Microeconomics is the science that studies the behavior of individual economic actors, more to the behavior of producers and consumers. Meanwhile, macroeconomics is the science that discusses the economic problems of a country in the aggregate. According to Narayan & Sahminan (2017) said that in macro theory the macroeconomic problems that are always faced by a country are the problem of economic growth, the problem of instability of economic activity, the problem of unemployment, the problem of rising prices

(inflation), and the problem of the trade balance. From this problem, inflation is a problem that is often faced by developing countries. Inflation itself is a situation where there is an increase in the price of goods and services from one period to another. Inflation is an indicator of economic stability (Romanda, 2020).

Severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), better known as the Corona virus, is a new type of coronavirus that can be transmitted. Corona Virus infection which is often called COVID-19 (Corona Virus Disease 2019) was first discovered in the city of Wuhan, China at the end of December 2019. This virus then spread quickly to various countries, one of which was Indonesia. Right on March 2, 2020, Indonesia reported its first case of Corona, and then the numbers continued to grow to the present, so that Indonesia implemented a Large-Scale Social Restrictions (PSBB) policy. Economic actors and business people in Indonesia have also experienced many changes since the arrival of Covid-19. Many companies do work from home and the education industry also started a new pattern of implementing home learning. This brought a new pattern in the Indonesian economy.

During the Covid-19 pandemic that started in 2020, the government has also issued various policies to stimulate fiscally and temporarily expand social assistance programs to help low-income families during the crisis. Starting from the policy of providing Direct Cash Assistance (BLT) assistance to the community, apart from that there is also a policy of relief in income tax, so that it can maintain people's income with the hope that the community will still be able to spend to maintain economic stability. The level of public consumption can affect a country's gross domestic product (GDP). GDP and inflation are indicators that can be used to measure a country's economic growth.

According to the Big Indonesian Dictionary (KBBI), inflation is a decline in the value of money (paper) due to the large amount and speed of money (paper) circulating, causing the price of goods to rise. Another definition of the Central Bureau of Statistics (BPS) means that inflation is a state of the country's economy where there is a tendency for prices and services to increase in the long term due to an imbalance in the flow of money and goods. There are various factors that can affect inflation (Romanda, 2020). In research, researchers want to see the effect of the exchange rate, the money supply and the BI Rate on inflation (Ramadan, 2022).

According to the monetarist view, the main cause of inflation is the excess supply of money compared to what is demanded by the public. According to Bank Indonesia (2015) in Sudibyo, et al. (2020) said that the money supply can be defined in a narrow sense (M1) and in a broad sense (M2). Where M1 includes currency held by the public and demand deposits (current accounts denominated in rupiah), while M2 includes quasi money (including savings, time deposits in rupiah and foreign currency, and current accounts in foreign currencies) and securities. An increase in the money supply indicates that the value of money will decrease and will increase inflation.

Apart from the money supply, the exchange rate is also a factor that can affect inflation (Narayan & Sahminan, 2017). Exchange rates and inflation are two things that are very closely related. When there is an appreciation (rise) of the domestic currency, the price of imported goods will become relatively cheaper, where this will have an impact on the real sector, namely increasing people's purchasing power. Different if there is a depreciation of the domestic currency against foreign currencies. This will be a bad signal for the economy. Several previous studies related to exchange rates and inflation produced inconsistent analysis and results, namely Jihadi, et al. (2021), stated that the exchange rate did not affect inflation, while Purba's research (2018) said that there was a causality relationship that influenced each other between the exchange rate and inflation. short-term.

The Bank Indonesia interest rate (BI rate) is a policy interest rate that reflects the attitude or monetary policy stance set by Bank Indonesia and announced to the public (Yusuf, et al., 2021). An increase in the BI rate will affect an increase in inflation in a country (Fahlevi, 2019).

THEORETICAL BASIS

Inflation

According to Angelina & Nugraha (2020) what is meant by inflation is the process of increasing the general prices of goods continuously for a certain period. Meanwhile, inflation according to another definition from the Central Statistics Agency (BPS) means that inflation is a state of the country's economy where there is a tendency for prices and services to increase in the long term due to an imbalance in the flow of money and goods. In Indonesia, BPS publishes inflation based on another grouping

called inflation disaggregation. In Indonesia, inflation disaggregation is grouped into (Bank Indonesia, 2022):

1. Core inflation, namely the inflation component that tends to settle or be persistent (persistent component) in inflationary movements and is influenced by fundamental factors, such as the interaction of demand and supply, the external environment (exchange rates, international commodity prices, trading partner inflation), and inflation expectations of traders and consumers.
2. Non-core inflation, namely the inflation component that tends to be highly volatile because it is influenced by factors other than fundamentals. The non-core inflation component consists of volatile component inflation and government regulated price component inflation.

According to Bank Indonesia, inflation arises due to pressure from the side supply (cost push inflation), from the demand side (demand pull inflation) and from inflation expectations. Bank Indonesia's monetary policy is aimed at managing price pressures originating from the aggregate demand side (demand management) relative to supply side conditions. Monetary policy is not intended to respond to rising inflation caused by surprise and temporary factors (temporary) which will disappear by itself over time.

Exchange Value

Exchange rates or exchange rates can be price differences to value goods and services based on the country's economy. Sukirno argues that the exchange rate is the amount of domestic currency needed to obtain one unit of foreign money (Sari, et al., 2020). Inter-country trading activities are the reason for the importance of currency exchange rates. Considering that Indonesia is a developing country, which of course still needs other countries. In fact, it is not only related to trade/export and import, the exchange rate is also important in paying foreign loans (Vikaliana, 2017).

Money in Circulation

Money Supply Money is anything that can be used/received to make payments for goods, services or debt (Huruta & Sasongko, 2020). The function of money in general is as follows:

1. As a unit of measure of value, with this function the value of an item can be measured and compared. For example, measuring the value of a cellphone using

the rupiah value, it can be seen the comparison of the value between the cellphone and the TV.

2. As a medium of exchange, with money we can buy/exchange with other goods, thus facilitating buying and selling transactions.
3. As a means of hoarding wealth, with money one can save/accumulate wealth.

According to Boediono in Huruta & Sasongko (2020) Interest rates are the price that must be paid if there is an exchange between one Rupiah now and one Rupiah later (Oktavia & Wahyudi, 2020). An increase in unreasonable interest rates will make it difficult for the business world to pay interest expenses and liabilities, because high interest rates will add to the burden on the company so that it will directly reduce the company's profits (Bawono, et al., 2021).

METHOD

The population used in this study is all data on exchange rates, money supply and BI rate on inflation in Indonesia during 2020 and 2021. The data used in this research are exchange rate data, money supply, BI rate and inflation for the January-December 2020 and January-December 2021 periods. The data used in this research is secondary data obtained from www.bi.go.id and www.bps.com. The independent variables contained in this study include: exchange rates, money supply and BI rate. While variables depend of this research is inflation.

RESULT

In this study, the normality test was first performed using SPSS 25 using the Kolmogorov-Smirnov. From the results of the normality test, a significance value of 0.120 was obtained, which means the value was above 0.05, so that the data in this study were declared normally distributed.

In addition to the normality test, the classical assumption test has been carried out and the results show that the study has passed the classical assumption test. The following is a table of regression results:

Table 1. Model Summary

Parameter	Model Summary
Correlation	0.846
R Square	0.725
Contribution	0.673
Error Standard	0.002

Source: Research data, 2022

From the data above, it can be seen that the adjusted R Square value is 67.3%, which can be said that 67.3% of the dependent variable in this study is influenced by the independent variables in this study, the remaining 32.7% is influenced by other variables outside this research.

Based on the results of the F test, it shows a significance value of 0.000, where the value is below 0.05, which means that the three independent variables in this study jointly affect the dependent variable. Exchange rate, money supply and BI rate simultaneously has a significant effect on inflation.

Table 2. Anova Test

Parameter	Anova Test
Simultaneous Test	16
Significance	0.000
df	3

Source: Research data, 2022

Based on the results of the hypothesis test (t-test) it can be seen that the BI rate has a significance value of 0.000 (below 0.05), while the exchange rate and money supply variables have a significance value above 0.05. This indicates that the BI rate has a significant effect on inflation, while the exchange rate and money supply variables have no significant effect on inflation.

Table 3. Regression Test

Model	Beta	T count	Say
Exchange Rate – Inflation	0.013	0.104	0.92
Money Supply – Inflation	0.458	2.000	0.05
Suk Bunga – Inflation	1.20	5.220	0.00

Source: Research data, 2022

The exchange rate and the money supply have no effect on inflation. The exchange rate is a factor that causes inflation in terms of supply (cost push inflation) While the data in this study are the January-December 2020 and January-December

2021 periods, where this period is the Covid-19 period, the inflation that occurred during this period occurred more from the demand side (demand pull inflation) because people reduce purchasing power which is the effect of reduced income.

The money supply has no effect on inflation in this study. It can be analyzed that the research period is the covid period, where at the beginning of this period, the Indonesian people experienced panic so that they withdrew their money from savings so that they had liquid funds, this caused the money supply to increase, but did not affect inflation because this was temporary factors, where this will disappear by itself over time. The increase in the money supply that occurred in the January-December 2020 and January-December 2021 periods was not due to Bank Indonesia increasing the amount of money, but because the Indonesian people disbursed their funds.

CONCLUSION

Factors affecting inflation in the January-December 2020 and January-December 2021 periods that have a significant effect are BI rate, while the exchange rate and money supply variables have no effect on inflation. Inflation is divided into cost push inflation and demand pull inflation. The periods of 2020 and 2021 are the periods when the inflation that occurs is demand pull inflation, because starting from the demand side, the demand for goods by consumers has decreased due to the decline in people's purchasing power.

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