



The Influence of Inflation Rate on Economic Development in Indonesia Within Sustainable Blue-Green Economic Integration

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Abstract. The economic development of a country is influenced by various factors, one of which is the inflation rate. This article investigates the influence of the inflation rate on economic development in Indonesia by integrating a sustainable blue-green economy. The results of the findings have shown that there is a relationship between the inflation rate and economic development. From the inflation rate, it can be seen that higher levels become an obstacle to economic development by reducing people's purchasing power, disrupting investment and reducing economic stability. High inflation rates tend to hinder economic development. Efforts to stabilize inflation need to be aligned with strategies for integrating the blue-green economy and sustainable business. The policy implications of these findings emphasize the importance of controlling inflation to support sustainable economic development in Indonesia. A better understanding of these dynamics can help governments and policymakers design effective strategies to improve a country's economic welfare.

Keywords: Economic development; Inflation; State Economy

1 Introduction

Inflation and economic growth are two key indicators that are very important for a country's well-being. First of all, inflation plays a crucial role in determining price stability in the market. When inflation is maintained at a moderate level, consumers and producers can make better economic decisions, as they have confidence that prices of goods and services will not fluctuate drastically. This price stability supports public confidence in the country's currency, which in turn promotes investment and sustainable economic growth [1].

Inflation is an economic phenomenon that occurs in almost all countries, including Indonesia. Inflation reflects a general increase in the prices of goods and services continuously over a certain period of time, which can have a significant impact on a country's economic stability. In Indonesia, inflation is often one of the main indicators that reflects the health of the national economy. Although inflation within reasonable limits is considered a positive sign of economic growth, uncontrolled inflation can cause various problems, such as decreased purchasing power, market uncertainty, and slow investment. Therefore, understanding the effect of inflation on economic

development in Indonesia is very important for policy makers, economic actors, and the wider community.

Economic development is a major milestone in evaluating a country's well-being. Strong economic growth creates new jobs, increases people's incomes, and allows the government to allocate more resources to education, health, infrastructure, and other social programs [2]. In addition, stable economic growth also helps reduce poverty rates, improve living standards, and create opportunities for companies to expand their businesses and enter the global market.

Along with global economic development, inflation in Indonesia is influenced by various external factors such as fluctuations in world oil prices, international trade uncertainty, and geopolitical conditions that affect the supply of goods and services. In addition, internal factors such as monetary and fiscal policies implemented by the government also play an important role in controlling inflation. However, the challenges faced in managing inflation are often balanced by efforts to maintain stable economic growth. This balance is a priority for the government to ensure sustainable economic development.

In recent decades, inflation in Indonesia has experienced quite significant fluctuations, especially during the 1998 monetary crisis and the COVID-19 pandemic that hit the world in 2020. Both events resulted in a spike in inflation and slowed the rate of economic growth. Various policy steps have been taken by Bank Indonesia and the government to suppress inflation and restore the economy. However, the challenge of inflation remains one of the issues that requires serious attention, especially amidst the government's efforts to encourage post-pandemic economic growth.

Stable economic development is the main goal for a country because it can create jobs, increase people's income, and encourage the development of economic sectors [3]. However, high inflation rates are an obstacle to economic development in several ways. High inflation can have an impact by lowering people's attitudes towards purchasing due to rising prices of goods and services. This can reduce consumption and investment, which are two important components in economic development. And uncontrolled inflation can disrupt price stability, making economic planning difficult for business actors and the government, which in turn can hinder long-term investment that supports economic development [4].

On the other hand, the relationship between inflation and economic development can have a complex attitude. There is a phenomenon known as "good inflation", namely inflation that occurs in line with strong economic development. In conditions like this, inflation can function as an indicator of healthy economic development, where demand for goods and services increases in line with production capacity [5]. However, stable and moderate inflation remains a crucial factor in ensuring sustainable economic development. Therefore, appropriate monetary and fiscal policies are essential to maintaining a balance between economic development and price stability. Blue and green economy are approaches that prioritize environmental sustainability in economic growth. Blue economy focuses on the sustainable use of marine resources, while green economy leads to the implementation of environmentally friendly strategies to minimize negative impacts on nature [6]. Indonesia, with its wealth of land and sea natural resources, has great potential to develop the integration of these two concepts. However, high inflation can affect the

country's ability to implement the strategy, as rising prices of goods and services often reduce funding allocations for sustainable projects and complicate access to environmentally friendly technologies. On the other hand, the concept of sustainable business is gaining more attention in Indonesia. Many companies are starting to implement strategies that are in line with the principles of Environmental, Social, and Governance (ESG) to create sustainable long term growth. However, high inflationary pressures often cause companies to focus on efforts to stabilize production costs and short-term profits, thus neglecting investment in sustainability. Economic uncertainty caused by inflation can also hinder the development of sustainable business due to increased operational costs and fluctuations in raw material prices.

In Indonesia's economic situation, efforts to overcome inflation and maintain economic stability must be in line with the implementation of blue-green economic and sustainable business strategies. The government and business actors must collaborate to create policies that can balance economic growth with environmental preservation. In addition, controlled inflation can encourage investment in sustainable sectors, accelerate the transition to a green economy, and support the responsible use of marine resources [7].

Therefore, this article will explore how the inflation rate affects economic development in Indonesia within the framework of integrating the blue-green economy and sustainable business. This research is expected to provide a more holistic picture of the importance of managing inflation as part of a sustainable and environmentally friendly economic development strategy.

2 Methodology

This study uses a qualitative research method with a literature study approach, which is an approach used to understand a particular phenomenon or topic through analysis of various relevant literature sources. In this context, researchers collect, review, and synthesize various articles, books, research reports, and other literature sources related to the research topic to be investigated. This approach allows researchers to understand the diversity of perspectives, approaches, and findings in the related literature, thus allowing for the formation of a deep understanding of the topic being studied. In addition, qualitative research methods with a literature study approach also allow researchers to explore the development of current concepts, theories, and findings in a particular field of study, as well as identify knowledge gaps that may need further research. One of the main advantages of qualitative research methods with a literature study approach is its flexibility in accommodating a variety of data sources and analysis approaches. Researchers can use various analysis techniques, such as content analysis, narrative analysis, or comparative methods, according to the needs of the research and the objectives of the analysis. In addition, this approach also allows researchers to find knowledge gaps or new research questions that may not have been thought of before, so that they can trigger further research development. Thus, qualitative research methods with a literature study approach are a valuable tool in enriching understanding of a particular topic, as well as facilitating the development of deeper and more comprehensive knowledge in the relevant field of study.

3 Results and Discussion

Inflation is a symptom that occurs when there is an increase in general prices so that there is a continuous increase [8]. This increase cannot be said to be inflation if only one or two goods experience an increase. This can be shown by the widespread increase in the prices of most other goods. This phenomenon causes the value of money to decrease,

so that with the same amount of money, a person can buy fewer goods or services than before. The causes of inflation can come from various factors, including excessive demand for goods and services, increasing production costs, inflationary pressures from the external sector, or inappropriate monetary policies. A low inflation rate is considered a favorable condition for the economy because it increases price stability and encourages sustainable economic development, while an increase in inflation can cause economic instability and reduce the purchasing power of the community as a whole [2].

Economic development is a concept that describes the continuous increase in the level of production and income of a country or region over a certain period of time. It is explained that economic development is often measured by the development of GDP or gross domestic product. Where this explains the total value of all goods and services produced by a country in a certain period of time. Economic development reflects the progress of a society in expanding production capacity, creating jobs, improving living standards, and providing opportunities for further development in various economic sectors.

Inflation data conducted by Bank Indonesia on its website shows that the inflation rate in 2024 tends to increase. This can be seen from January to March which showed a figure of 2.57% and shot up in March to 3.05%. High inflation rates often create certainty and can make the public lose confidence. From here, there will be obstacles to investment and consumption. In addition, high inflation can damage people's attitudes towards purchasing goods and services because prices increase too quickly, resulting in decreased consumption and investment.

The relationship between inflation rates and economic development in Indonesia is an important topic in the country's macroeconomic analysis. A stable and controlled inflation rate is essential to support sustainable economic development. When inflation is too high, consumers tend to reduce spending because their purchasing power decreases. This can hinder economic development because the decline in consumer demand also reduces overall economic activity. However, low and stable inflation can provide a more affordable economic scope for economic development because there are more stable prices so that it does not hinder the public from continuing to consume and invest.

In Indonesia, high inflation rates are often a challenge in efforts to achieve high and sustainable economic development. High inflation can hinder macroeconomic stability, which will reduce people's purchasing power and increase uncertainty for business actors. On the other hand, when inflation can be managed well, Indonesia's economic development potential can be better actualized. Appropriate policy steps in controlling inflation, such as accommodative but forward-looking monetary policy, can help create a conducive environment for sustainable economic development.

In addition, the relationship between inflation and economic development in Indonesia is also influenced by structural factors and economic policies that are specific to the country. For example, price subsidy policies, commodity price fluctuations, and political and security stability can affect the balance between inflation and economic development. In addition, structural challenges such as infrastructure gaps and regional disparities can also affect the potential for Indonesia's economic development.

In managing the relationship between inflation and economic development in Indonesia, it is important for the government and the central bank to take balanced policy steps. This includes maintaining price stability through appropriate monetary policy, so as to provide stimulus from investment and consumption based on fiscal policy, and strengthening the structural foundation of the economy to support long-term growth. By understanding the dynamics of the relationship between inflation and economic development and taking appropriate actions, Indonesia can achieve quality and inclusive economic development in the long term.

The inflation rate in a country is influenced by various complex factors that can come from internal and external factors. One of the internal factors that affects the inflation rate is aggregate demand. High demand, especially when there is excess capacity for production, can cause an increase in the price of goods and services. This happens be

cause excessive demand encourages producers to raise prices. Another factor is the cost of production. The existence of increased production costs, such as increased wage payments or raw material prices, will encourage producers to also raise product prices, which in turn can cause inflation.

In addition, monetary and fiscal policies also affect the inflation rate. The central bank's actions to set interest rates or the amount of money circulating in the economy can affect the inflation rate. So does fiscal policy involving government spending and revenues. On the other hand, external factors also play an important role in determining the inflation rate. One of the main factors is commodity prices. Changes in international commodity prices, such as crude oil or metals, can affect a country's import prices, which in turn can affect domestic inflation rates.

Currency exchange rates can also affect inflation rates. Currency depreciation can increase the price of imported goods, while currency appreciation can help suppress inflation by making imported goods cheaper. Other factors include global economic conditions, such as global economic developments or geopolitical instability, which can have a significant impact on a country's inflation rate through various economic transmission channels.

The implications of economic policy are very important in the context of managing various aspects of a country's economy. Fiscal policy has significant implications for fiscal stability and economic development. Through fiscal policy, the government can regulate the level of expenditure and revenue of a country in achieving its goals, such as reducing the budget deficit, improving infrastructure, or reducing income inequality. The right fiscal policy can help create conditions that support sustainable economic development.

Monetary policy plays a key role in stabilizing prices and economic development. Central banks use various instruments, such as interest rates and asset purchase policies, to control the amount of money circulating in the economy. The

implications of monetary policy can be felt in the form of inflation, credit growth, and financial system stability. Determining a wise monetary policy is very important to balance between promoting economic development and maintaining inflation within acceptable limits.

The existence of trade policies and investment policies has a significant impact on the integration of a country's economy with the global economy. By adopting an open trade policy and facilitating foreign investment, countries can increase access to global markets and new technologies, which can drive economic development. However, less wise or unbalanced trade policies can have negative impacts, such as increasing trade deficits or vulnerability to global economic fluctuations.

Meanwhile, economic policy also has significant social implications. Income distribution, access to public services, and overall economic stability can affect the welfare of society as a whole. Therefore, economic policy must consider its social impact by ensuring that economic development not only creates prosperity for a few people, but also benefits all levels of society. By understanding the implications of economic policy, governments can design and implement appropriate policies to achieve desired economic and social goals.

Inflation has a significant impact on economic development in Indonesia, especially when associated with the concept of blue-green economy integration and sustainable business. High inflation rates can affect the stability of prices of goods and services, which ultimately impacts people's purchasing power, investment, and economic output. In the context of the Indonesian economy, inflation has the potential to slow down the growth rate of economic sectors that prioritize environmental sustainability. For example, rising raw material and energy prices due to inflation can increase the cost burden on green economy-based projects, such as renewable energy, which require high investment in the early stages of development. On the other hand, this price instability also hampers innovation in the blue economy sector that focuses on the sustainable use of marine resources.

The blue-green economy aims to create environmentally friendly economic growth, maintaining a balance between the exploitation of natural resources and environmental sustainability. However, high inflation makes it difficult to realize this concept because the state budget and business actors are forced to divert funds to more priority sectors to overcome the impact of inflation, such as controlling food and energy prices. For example, when fuel prices rise sharply due to inflation, government subsidies for renewable energy such as solar or wind power are often affected, because fiscal resources are used to stabilize traditional energy prices. In this context, economic sectors that require large investments in environmentally friendly technologies may be delayed due to inflationary pressures.

Sustainable businesses, which implement Environmental, Social, and Governance (ESG) principles, also face challenges in high inflation. When inflation rises, companies often focus on short-term cost control and financial stability, which can hinder their efforts to invest in sustainability initiatives. Data shows that inflation in Indonesia in 2022 reached 5.51%, one of the highest levels in recent years. This has triggered an increase in the cost of raw materials to energy, so many companies have had to reduce their budgets for ESG projects. For example, in the manufacturing sector, rising operating costs due to inflation make it more difficult for companies to

switch to sustainable business practices such as using clean energy or recycling raw materials.

However, the potential positive impact of inflation control on sustainable economic development cannot be ignored. When inflation is under control, such as in the 2019 period before the pandemic when Indonesia's inflation was around 2.82%, the investment climate becomes more conducive to environmentally friendly projects. Within the blue-green economy framework, this allows the country to allocate a larger budget for sustainability programs, such as sustainable fisheries management or the development of renewable energy from the ocean. Therefore, inflation stabilization is one of the key elements to encourage a blue-green economy and sustainable business in Indonesia, opening up wider green investment opportunities and reducing dependence on environmentally damaging business practices.

4 Conclusion

Inflation has a significant impact on economic development in Indonesia. Through data analysis and research conducted, it can be concluded that changes in the inflation rate have an impact on the level of economic development of the country. High inflation rates tend to hinder economic development. The instability of prices of goods and ser

vices can reduce people's purchasing power and create uncertainty for business actors, which can ultimately reduce investment and overall economic activity. Effective and appropriate monetary policy is very important in controlling the inflation rate. The Central Bank of Indonesia (BI) has a crucial role in maintaining price stability in the market through interest rate policies and other monetary instruments.

The high inflation rate in Indonesia has a significant impact on economic development, especially in the context of blue-green economic integration and sustainable business. Inflation affects the prices of goods and services, thereby slowing down investment in sectors that focus on environmental sustainability, such as renewable energy and marine resource utilization. For example, Indonesia's inflation in 2022 reached 5.51%, which triggered an increase in operating costs in various industries, including green economy-based projects. This complicates efforts to transition to a sustainable economy because companies and governments are more focused on price control and short-term economic stabilization.

However, when inflation is under control, such as in 2019 when inflation was only 2.82%, the investment climate becomes more stable and supports sustainability initiatives. Controlling inflation allows for greater resource allocation for environmentally friendly and sustainable projects, such as renewable energy development and responsible management of marine resources. Therefore, efforts to stabilize inflation need to be aligned with the blue-green economy integration strategy and sustainable business to ensure inclusive, environmentally friendly and sustainable economic growth in the future.

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