ABSTRACT

This study aims to examine the impact of the fiscal deficit as a fiscal policy, and the impact of the BI Rate and the money supply as a monetary policy on inflation during the period 1989 to 2023. Based on the quantity theory of money, it states that fiscal policy in this case the fiscal deficit and monetary policy, namely the BI Rate and the money supply can affect inflation.

This study uses the Autoregressive Distributed Lag (ARDL) research method which will examine the variables of the fiscal deficit, BI Rate, and the money supply on inflation. The method can examine the influence of variables in the long term and short term.

The results of this study indicate that the fiscal deficit has a negative and significant effect on inflation, the BI Rate and the money supply have a positive effect on inflation. The fiscal deficit has a negative effect on inflation because this policy is useful for stabilizing inflation. The money supply still has a positive effect on inflation and the BI Rate has a positive effect on inflation due to expectations of inflation so that it can encourage increased inflation.

Keywords: Fiscal deficit, money supply, BI Rate, and inflation.