ABSTRACT

Inflation is an economic phenomenon that has a broad impact on a country. Following the monetary crisis that affected Asia, including Indonesia, inflation remains a key topic of concern for both academics and policymakers. In economic theory, the classical school argues that the money supply is the main determinant of inflation, while in the Keynesian perspective, inflation is viewed as a result of excess aggregate demand, with interest rates serving as an instrument to control it.

This study aims to analyze the determinants of inflation in Indonesia using the variables of broad money supply (M2) and the Bank Indonesia interest rate (SBI) for the period 2007–2022. The data used are secondary data obtained from the publications of Bank Indonesia (BI) and the Central Bureau of Statistics (BPS). The data were analyzed using the Error Correction Model (ECM) with the assistance of E-Views 12 software.

The results of the study show that, both in the long run and the short run, the money supply has a negative coefficient on inflation but is not statistically significant. In contrast, the Bank Indonesia interest rate variable exhibits a positive and statistically significant relationship with the inflation rate in both the long and short term in Indonesia.

Keywords: Inflation, Money Supply (M2), Bank Indonesia Interest Rate, Error Correction Model (ECM), Indonesia