**EFFECT OF INFLATION ON ECONOMIC GROWTH, NET ASSET** **VALUE AND INVESTMENT VALUE IN AN ISLAMIC** PERSPECTIVE

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**Abstract**

This study aims to determine the impact of inflation and how to overcome it based on Islamic economics. This research uses descriptive qualitative methods and uses secondary data sources where the information or sources obtained and used for restatement come from various journals. The results of the discussion in this study are that inflation has an impact on economic growth, net asset value and investment. How to overcome inflation according to islamic economics is by implementing fiscal policy, improving people's behavior and implementing other policies, such as increasing production, wage policy, price supervision.

Key: Inflation, economic growth, net asset value and investment.

**INTRODUCTION**

Inflation is a symptom of macroeconomics that has something to do with the decline in the exchange rate (money) in the goods and services market (Awaluddin, 2017). There are so many negative impacts of inflation in the economic world, inflation is also often referred to as a monetary phenomenon that can cause sluggish efficiency and productivity of the economy, increase the cost of capital, and others. The main thing in monetary policy is to focus on solving the inflation problem, namely how the Islamic economy is believed to be able to handle it by changing the behavior patterns of the people and their country's leaders (Parakrasi, 2018).

Inflation in Indonesia is open to problems that are short-term but long-term. This is because in Indonesia itself there are still structural constraints in terms of the economy. To overcome this, it can not only be done by utilizing monetary instruments but by improving the real sector which reduces structural barriers in the economy (Atmadja, 1999 ; Sasongko, Bawono, & Prabowo, 2021).

The decline in exports abroad is caused by the influence of inflation on the rupiah exchange rate (Purnomo, 2017). Inflation is influenced by economic growth, which is 29.4%, (Yulianti & Khairuna, 2019). Inflation and unemployment have a negative impact on economic growth (Syarun, 2016).

One way in the Islamic perspective to control inflation is money policy (Salam, 2020). Stability currency value is not based on currency elements that result in disrupting all elements of paper currency into gold, precious metals and silver, but by improving people's economic behavior (Syakir, 2015).

Factor which is the cause of inflation include, an increase in demand that is not balanced with increased supply, weakening the rupiah exchange rate, price policies set by the government, inflation expectations that tend to be high and others. The main thing that happens is that inflation factors can be caused by reasonable things and changes occur at certain times. (Kurniawati, 2019 ; Bawono, Zainuri, & Wilantari, 2019). Things that have an impact on inflation occur in economic development, economic development is a thing where there is an increase in economic activity so that there is also an increase in the growth of goods and services. Positive economic development and growth are influenced by 4 main factors, namely investment, consumption, government spending, and net exports. (Hariyanto, 2019) .

**METODOLOGI**

**Data Source and Collection**

The purpose of this study is to find out what are the impacts of inflation and how to overcome it based on Islamic ekononic. Metod used in this study is a descriptive qualitative method and uses secondary data sources where information or sources obtained and used for restatement come from various journals. The reason for using qualitative research here is to easily describe the information that will be presented to a study. Qualitative itself is the presentation of data in the form of narratives or words. This study uses secondary data sources where information or sources obtained and used for restatement come from various journals.

**Thematic Analysis**

Before the presentation of this study, we conducted a study on sub-chapters of themes that we will use related to how inflation in the perspective of Islamic economics, the causes of inflation both in the general context and in the Islamic view, the impact of economic growth and investment due to inflation, and how to overcome inflation in the Islamic economy. Of course, all these things are very influential on the main topic, namely inflation, ranging from how the impact and causes of inflation in the perspective of Islamic economics to how to overcome inflation in the Islamic view.

From this, you get several themes as the main topics in this study, namely as follows:

1. Inflation in the perspective of Islamic economics

2. Causes of inflation according to islamic perspective

3. The impact of inflation on the Islamic economy

4. Countering inflation in the Islamic view

In accordance with some of the themes above will certainly be further developed based on the study of information search literature in the form of data obtained in various journal references such as google scholar, emerald, and so on. As for the purpose of this study, we are trying to analyze how islam views inflation.

**RESULT**

**Report Interpretation**

Table 1. Analysis Content

|  |  |
| --- | --- |
| Theme | Analysis Content |
| Inflation | Inflation is the phenomenon of increasing the price of an item in society that lasts a prolonged manner. |
| Economic Growth | Economic growth is an increase that occurs in the value and amount of goods / services of a country in a certain period of time. |
| Net Asset Value | Net Asset Value is a value that describes the total net worth of mutual funds. |
| Investment | In general, investment can be interpreted as the responsibility of a certain amount of money / funds / other resources aimed at generating profit / profit in the future. |

Inflation

Economic Growth

Net Asset Value

Investment

**EXPLANATION OF RESULTS**

**Inflation in an Islamic perspective**

According to islamic economics in a normal context inflation is unlikely to occur, even if caused by natural disasters, wars or market manipulation that is difficult to avoid. In these conditions, the government can design various policies to stabilize prices, in addition to providing socialization to the community consistently referring to sharia (Mannan, 2008)

In aggregate, inflation in the Islamic economic system is not the main problem, because of the stable currency used, namely dinar and dirham. When the value of gold becomes a support for face value, there is a decrease in the value of the currency caused by the increased amount of gold, but this is less likely to happen. Inflation has a bad influence on the economy because it causes hampering the function of money, especially in the function of savings, calculations and payments. Slacking people's enthusiasm to save can increase the tendency to shop, especially on luxury goods and non-primary goods. Focus investment on something that results in the hoarding of wealth, such as precious metals, buildings, land, foreign currency by dedicating investments to something useful, such as trade, services, livestock, mining and others -lain (Hariyanto, 2019).

**Causes of Inflation**

Inflation is a problem in the economic system in a community or state, especially a developing country. Inflation that occursin the countryoccurs due to several factors, one of which is the government's budget which is closely related to the amount of money circulating in the community (Mulyani, 2020). If further examined the factors that cause inflation can be caused by the permasaland on demand, supply and expectations or it can also occur because of these three factors that affect. The three causes of inflation can be explained as follows:

1. Demand Pull Inflation

An increase in the amount of money in circulation in the short term can cause inflation. This is because interest rates are affected by the increasing amount of money circulation which results in the amount of investment and consumption increases drastically in a relatively short time. The effect of an increase in the value of consumption and investment automatically drives the market mechanism for increasing the price of goods as a whole. Because of this increase in consumption and infestations, inflation is named demand pull inflation (Schwarzer, 2018)

1. Supply Shock Inflation

The cause of this supply inflation is triggered by an increase in the price of offers to an item either in the form of imported goods or goods whose increase and fall in price is determined by the government such as an increase in the price of fuel oil and electricity tariffs (Phelps, 1978).

1. Mixed Inflation

This mixed inflation is that this inflation occurs due to demand inflation and supply inflation that occurs simultaneously such as an increase in demand behavior on misaligned supply or increased demand for goods. Two events such as the example resulted in the production and supply of goods becomes small and with limited substitution of substitute goods or even the absence of replacement goods cause the price of an item to soar, causing inflation (Ema, 2017).

1. Expected Inflation

Another cause of inflation is that there are economic actors who expect in forward looking that is adatif. People who are of the view that in the future economic conditions will be better than in the present or the previous. People's expectations of the future picture are the triggers for demand pull inflation and cost push inflation that occurs in accordance with the code of people who hope and the preparation of goods and factors of production of the present, past and future (Ang, Bekaert, & Wei, 2008).

**Impact of Inflation**

1. **Economic Growth**

Many experts say and argue that economic growth is not about production activities alone. Judging from the word growth is not only related to the economy, but how the growth of human resources to deal with what happened (Ardiansyah, 2017). There is some discussion about understanding the islamic economic perspective on economic growth, where it is clear in Islam that it is not the same as capitalists, which explains that the economic question of how wealth and availability limits (Dewi, 2021).

Judging from the conventional and sharia aspects, experts say that this inflation problem has a very bad impact on the economy. The impact of inflation itself can generally affect distribution income, allocation of production factors, and national products (Ardiansyah, 2017). The problem of inflation here is really very detrimental in various aspects, especially the economy, which involves disrupting economic development in a country. Ruin all the original plans for the future, and disrupt the economic stability that took place. (Yulianti, Khairuna, 2019

1. **Sharia Mutual Fund Net Asset Value**

Sharia mutual funds are in the form of securities portfolios with provisions that are in accordance with Islamic sharia and are used as an investment forum for investors. From the results of the study it was found that, Inflation and Net Asset Value of Islamic mutual funds had a significant influence in 2015-2017, in that year the shift in inflation can be said to be shrinking and The use of money at that time was more skewed towards productive things. Konteks inflation contained in the data and still included small. And low inflation can stimulate economic development that makes people want to work, save, and invest (Adrian, 2019).

The rupiah exchange rate has no impact on the Net Asset Value of Islamic mutual funds, because of the lack of devices in Islamic mutual funds that contain foreign investment instruments, therefore metamorphosis occurs. in the movement of the rupiah exchange rate is not so significant to the series of Net Asset Value of Islamic mutual funds (Miha, 2017).

1. **Investment**

The two countries that have the highest inflation are Indonesia (8.4%) and Myanmar (5.9%). Investors' interest in investing is influenced by the high or low rate of inflation. In the inflation category, 8.4% is included in the category of mild inflation, therefore the opportunity to invest in Indonesia can still be done judging from the relatively light inflation index. Investors will take advantage of the opportunity from the low inflation index in Indonesia to invest their shares to be more developed (Malinda & Wahab, 2015).

**Countering Inflation in Islam**

Certainly various countries try to prevent inflation by carrying out beragam policies / strategies, including: first; Monetary Policy, in this policy the Central Bank has the authority to regulate the circulation of money through its instruments so that the circulation of money and inflation can be controlled. In regulating inflation, the central bank has three policies that can be pursued, including: first; Discount Policy, Cash Inventory Policy and Open Market Operations. Second; Fiscal Policy, these policies include: Government Spending Arrangements, Tax Rate Increases and Decreases. In Islam fiscal policy aims to create economic stability, an increased level of economic development and equitable income circulation and achieve equal demokrasi. Third; Other Policies related to Increased Production, Wage Policy and Supervision. Fourth; Improvement of People's Behavior. In addition to the above policies, improving people's behavior can be a step in overcoming inflation. Stabilitas currency value is not based on currency elements that result in disrupting all elements of paper currency into gold, precious metals and silver, but by improving people's economic behavior (Syakir, 2015).

**DISCUSSION**

Inflation is an unusual problem in one country, because once it happens it will be repeated and repeated. The impact is also great on the development of the country, especially on the aspect of economic growth. The Islamic economic perspective explains that this inflation has a very bad impact on the future economic development plan. Therefore, if it is not handled and controlled properly, then the higher the impact that will occur. Generally there are some impacts of inflation in economic growth, such as the significant dismissal of labor by companies so as to cause unemployment, on the other hand it also reduces the level of public welfare slowly or significantly, it can also reduce the value of investment so that people use investment as the wrong means by piling up their property. And the main thing is, it certainly reduces the certainty of future economic plans that cause economic growth to be hampered.

There are 4 types of causes of inflation, namely, inflation due to demand, inflation due to supply, inflation due to supply and demand, the last inflation caused by economic behavior with a boost in expectations about economic conditions. The impact of inflation on the value of investment is where it can reduce the value of the investment itself slowly or significantly which of course the decline is very affecting. Making investment as a means of stacking property so that the gap in people's welfare tends to increase as well.

Actually inflation can provide benefits for certain groups, such as debtors / parties who receive debt because with inflation, the money that will be used to pay off debts will have a lower value than when borrowing money. On the other hand, inflation also provides losses for other groups, such as creditors, where the value of money received by creditors will be lower than when he gave loans. Every country will certainly try to avoid inflation, so the country must make certain policies / regulations to avoid these problems, one of which is to limit the amount of money circulating in society, because if the circulation of money is not proportional to the level of productivity issued it will result in inflation.

**CONCLUSION**

In aggregate, inflation in the Islamic economic system is not the main problem, because of the stable currency used, namely dinar and dirham. Inflation is a problem in the economic system in a community or country, especially a developing country. Inflation that occurs in developing countries is due to several variables, one of which is the government's budget which is related to the circulation of money in the community. If further examined the factors that cause inflation, namely from land consumptionon demand, supply and expectations or it can also occur because of these three factors that affect. The three causes of inflation include: Demand Pull Inflation, Supply Shock Inflation, Mixed Inflation, Expected Inflation. Inflation can have an impact on economic growth, the rupiah exchange rate and investment.

Of course, countries try to prevent inflation, namely by implementing various policies, including Monetary policy (control of money distribution), Fiscal Policy (regulation of government spending, increase and decrease in tax rates), Other Policies (increase in production, wage policy, price supervision) and Improvement of Public Behavior.

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