

# Effect Of the Amount of Money Circulation, Foreign Debt, Market Money Between Sharia Bank and Bank Financing Sharia on Inflation in Indonesia

Husni Pasarela<sup>1</sup>, Fakrurradhi<sup>2</sup>, Iskandar Muda<sup>3</sup>, Andri Soemitra<sup>4</sup>, Sugianto<sup>5</sup>

<sup>1,2,4,5</sup>universitas Islam Negeri Sumatera Utara

<sup>3</sup>universitas Sumatera Utara

<sup>1</sup> Corresponding Email: Husni18mei85@Gmail.Com

**Abstract.** The Research In This Article Is A Type Of Quantitative Research. Which Aims To Determine The Effect Of The Money Supply, Foreign Debt, Islamic Interbank Money Market And Islamic Bank Financing On Inflation In Indonesia In The Period From 2009 To 2019. The Research Data Is Secondary Data Obtained From Bps, Bank Indonesia, The Authority Financial Services, And The Ministry Of Trade. Analysis Of The Data In This Study Using Warppls.7.0 Software, Where The Stages Are By Looking At The Validity And Reliability Of The Data. Furthermore, Hypothesis Testing Is Conducted To Find Out How The Relationship Between The Independent Variables On Y. The Results Of This Study Are The Money Supply Has A Negative And Significant Effect On Inflation, Foreign Debt Has A Negative And Insignificant Effect On Inflation, The Islamic Interbank Money Market Has A Positive And Insignificant Effect On Inflation, And Islamic Bank Financing Has A Positive And Insignificant Effect On Inflation. Negative And Significant Effect On Inflation.

**Keyword:** Inflation, Money Supply, Islamic Bank Money Market, Islamic Bank Financing, Foreign Debt.

## 1. Introduction

Inflation Is An Economic Problem That Continues To Be Faced By Developing Countries Such As Indonesia. Inflation Growth Is Always Controlled For Stability So That Problems In The Macro Economy Do Not Occur. High Inflation Reflects The General Condition Of Rising Prices For Goods And Services. The Increase In The Price Of These Goods And Services Will Result In A Decrease In People's Purchasing Power Which Results In Goods That Are No Longer Produced Not Being Sold Out So That Investment By Producers Will Decrease. If The Investment Made By Producers Decreases, The National Income Will Also Decrease Which Reflects Economic Growth. If Economic Growth Declines, It Will Disrupt Economic Stability And Development (Langi Et Al., 2014 And Tarmizi Et Al., 2017).

Indonesia As A Developing Country Is Not Immune From Inflationary Fluctuations Caused By External And Domestic Sources. Indonesia Experienced A Monetary Crisis Caused By Inflationary Fluctuations From Abroad In 1998. However, A Decade After The Monetary Crisis, The Indonesian Economy Continued To Improve, Table 1 Shows That The Rate Of Inflation Growth Has Begun To Be Controlled And Economic Growth Has A Stable Growth Trend.

**Table 1. Economic Growth Rate And Inflation In Indonesia**

Year	Economic Growth (Percent)	Inflation (Percent)	Sharia Financing (Billion Rupiah)	Puas (Billion Rupiah)	Jub (Billion Rupiah)	Uln External Debt (Million Us Dollar)
2009	4,6	2,78	46.886	45	2.141.384	172.871
2010	6,1	6,96	68.181	0	2.471.205	200.02
2011	6,2	3,79	102.655	50	2.877.219	224.757
2012	6,0	4,30	147.505	728	3.307.507	251.2
2013	5,6	8,38	184.122	750	3.730.197	264.06
2014	5,0	8,36	199.33	200	4.173.326	292.579
2015	4,88	3,35	213.988	530	4.546.743	310.158
2016	5,03	3,02	249.086	960	5.004.976	319.824
2017	5,07	3,61	286.849	800	5.419.165	352.878
2018	5,17	3,13	321.306	1.157	5.760.046	377.35
2019	5,02	2,72	356.437	1.165	6.136.551	404.282

Source: Bank Indonesia, Financial Services Authority, And Ministry Of Trade 2009-2019.

Table 1 Shows The Development Of The Inflation Rate And The Rate Of Economic Growth In Indonesia For A Decade From 2009 To 2019. During That Period, Economic Growth In Indonesia Reached The Highest Rate In 2010 With A Value Of 6.1% While The Highest Rate Of Inflation Was In 2013 With Value 8.38%. The Year 2009 Had The Lowest Rate Of Economic Growth And Inflation Throughout The Period 2009 To 2019 With An Economic Growth Value Of 4.6% And Inflation Of 2.78%. It Can Be Seen In Table 1.1 That During 2009-2014 The Inflation Rate Experienced Quite Various Fluctuations Where The Lowest Value Was In 2009 At 2.78% And The Highest Value In 2013 Was 8.38%, While The 2015-2019 Period Was Inflation Tends To Be Stable With The Lowest Value In 2016 At 3.02% And The Highest Value In 2017 At 3.61%. This Can Indicate That During The 2014-2019 Period The Inflation Rate Can Be Controlled Through The Policies Taken By The Government As Well As The Performance Of Productive Economic Activities.

Bank Indonesia As The Highest Monetary Authority In Indonesia Has The Task Of Maintaining Economic Stability. The Stability Of An Economy Can Be Said With Inflation Indicators That Can Be Controlled At A Moderate Level. However, Inflation Is Needed For The Rate Of Economic Growth.

Table 1 Shows That The Money Supply Continues To Increase From 2009 To 2019. Although The Money Supply (M2) Continues To Increase, The Inflation Rate Tends To Fluctuate. The Most Striking Comparison Occurred In The Range Of 2012 To 2015 When Inflation Experienced Significant Fluctuations Compared To The Money Supply (M2) Which Consistently Continued To Increase. The Most Striking Comparison Occurred In The Range Of 2012 To 2015 When Inflation Experienced A Significant Fluctuation Compared To The Money Supply (M2) Which Consistently Continued To Increase. In 2012, The Money Supply (M2) Amounted To Rp 3,307,507 Billion With An Inflation Rate Of 4.30% And The Following Year In 2013 Inflation Increased Significantly To 8.38% Where The Total Money Supply (M2) Increased To Rp 3,730. 197 Billion. In 2014 The Inflation Rate Decreased Very Slightly By 0.02% To 8.36% Where The Total Money Supply (M2) Continued To Increase To Rp 4,173,326 Billion. In The Following Year In 2015, The Inflation Rate Decreased Significantly To 3.35% But The Money Supply (M2) Continued To Increase To Rp 4,546,743 Billion. Then In 2016 To June

2019 The Inflation Rate Did Not Change Significantly And Was At The Level Of 2.72% While The Money Supply (M2) Continued To Increase And Was At Rp 5,908,509 Billion.

The Research Of Iya And Aminu (2014), Shows That There Is A Long-Term Relationship Between The Money Supply And Inflation In Nigeria In The Period 1980-2011. The Results Of This Study Also Show That The Money Supply And Interest Rates Also Have A Positive Effect On Inflation, While Government Expenditure And The Exchange Rate Have A Positive Relationship With Inflation.

Meanwhile, Akinbobola's Research (2012), Explains That Increasing The Money Supply Will Increase The Inflation Rate In The Short Term But The Effect In The Long Term Is Not Significant In Terms Of Increasing Inflation. The Results Of The Study Also Conclude That In Nigeria The Increase In Inflation Is Strongly Influenced By Expansionary Monetary Policy. From The Results Of These Studies, It Can Be Concluded That The Money Supply (M2) Has A Short-Term And Long-Term Effect On Inflation. Therefore, Further Research Using The Latest Data In Indonesia Is Needed To See The Short-Term And Long-Term Effects Of The Money Supply (M2) In Indonesia.

Sharia Bank Financing And Sharia Interbank Money Market (Puas) Are Instruments Born From The Rapid Growth Of Islamic Finance In Indonesia. Islamic Bank Financing Is An Alternative To Get Financing With Sharia Principles Where Creditors Can Get Capital Without Having To Worry About The Elements Of Usury, Gharar, And Maysir.

Table 1 Shows That Islamic Bank Financing Has An Increasing Trend Compared To Inflation And The Islamic Interbank Money Market (Puas). In 2012, Inflation Was At 4.30% And Islamic Bank Financing Was At Rp. 147,505 Billion, While The Sharia Interbank Money Market (Puas) Was At Rp. 728 Billion. The Following Year, Namely 2013, The Inflation Rate, Islamic Bank Financing, And Islamic Interbank Money Market (Puas) Increased Where Inflation Was At 8.38%, Islamic Bank Financing Was At Rp 184,122 Billion And Islamic Interbank Money Market (Puas) Was At Rp. 750. The Growth In The Value Of Islamic Bank Financing Did Not Seem Affected By Fluctuations In The Inflation Rate Where The Lowest Value Of Islamic Bank Financing Was In 2012 With Rp. 147,505 Billion And The Lowest Value Was In 2019 With Rp. 334,312 Billion. While The Islamic Interbank Money Market (Puas) Experienced The Lowest Value In 2014 With A Figure Of Rp 200 Billion Where The Inflation Rate Was At 8.36% And Reached The Highest Value In 2019 With A Figure Of Rp 1,165 Billion Where The Inflation Rate Was At Number 2.72% Research By Sugianto, Et Al (2015), Shows That Islamic Bank Financing And Islamic Interbank Money Market (Puas) During The Period January 2003 To December 2013 Had A Small Effect On Inflation. In The Study, It Was Stated That The Islamic Interbank Money Market Also Has A Stable Short-Term Relationship To Inflation, While Islamic Bank Financing Has A Small Contribution.

Meanwhile, Zaelina's Research (2018), Shows That Islamic Bank Financing And Islamic Interbank Money Market (Puas) During The Period January 2006 To April 2016 Have A Negative Response To Inflation, Which Means If The Value Of Islamic Bank Financing And Islamic Interbank Money Market (Puas) Increases, Inflation Will Decrease And Economic Growth Will Increase. This Shows That Islamic Bank Financing And Islamic Interbank Money Market (Puas) Have Contributed To The Decline In Inflation And Increased Economic Growth In Indonesia.

From The Results Of These Studies, It Can Be Concluded That Islamic Bank Financing And Islamic Interbank Money Market (Puas) Have A Short-Term And Long-Term Relationship To Inflation. Further Research Is Needed To Determine The Development Of The Short-Term And Long-Term Relationship Between Islamic Bank Financing And Islamic Interbank Money Market (Puas) On Inflation Using The Latest Data.

Foreign Debt Is One Of The Revenues For The Indonesian Government To Carry Out Development And Run The Economy. With Regard To Indonesia's External Debt, In The 1990s, The Debt

Service Ratio Was Higher, Which Was More Than 40% And The Percentage Value Of External Debt In The Commercial Sector Was Higher Than That Of The Non-Commercial Sector. This Could Threaten The Economy In Indonesia, Especially The Financial Sector If The Value Of The Rupiah Against The Usdollar Continues To Depreciate. If The Rupiah Continues To Depreciate Against The Us Dollar, It Will Cause Imported Inflation (Atmadja, 1999).

Foreign Debt Also Affects Inflation Along With Fluctuations In The Rupiah Exchange Rate Against The Us Dollar. The Increase In Foreign Debt With The Continued Depreciation Of The Rupiah Against The Us Dollar Will Create Imported Inflation If Not Controlled Properly. Although Indonesia's Foreign Debt Did Not Increase Significantly But The Rupiah Continued To Depreciate, Inflation Could Occur Through Sectors That Require Imported Raw Materials. The Increase In The Price Of These Raw Materials Will Indirectly Increase Prices In The Domestic Market. Therefore, The Inflation Rate Cannot Be Separated From The Foreign Debt Factor.

Inflation Is Something That Cannot Be Avoided In Every Developing Country. However, Controlling Inflation Is Very Important To Maintain Economic Stability Because With An Appropriate Inflation Rate, Economic Growth Can Be Achieved. The Many Factors That Influence Inflation Make Inflation One Of The Most Important Economic Problems And Will Continue To Occur. Therefore, It Is Important To Review The Issue With The Latest Data.

The Purpose Of This Study Is To Find Out How The Relationship Between The Money Supply, Foreign Debt, Islamic Interbank Money Market And Islamic Bank Financing Against Inflation In Indonesia.

## **2. Literature Review**

### **2.1. Inflation**

Murni (2006), Defines Inflation As An Event That Shows An Increase In Prices In General And Takes Place Continuously Within A Certain Time Span. According To Slavin (2008), Inflation Is An Increase In The Average Price Level Continuously Over An Annual Period. An Increase In The Price Of One Type Of Goods, Even Though The Increase In The Price Of One Type Of Goods Is High, Cannot Be Called Inflation. Therefore, An Increase In Prices That Can Be Called Inflation Only When All Or Almost All Types Of Goods And Income Increase More Or Less By The Same Amount. (Delong, 2002)

Because Inflation Is Measured By The Average Price Level, It Is Possible For The Prices Of Individual Goods To Increase And Decrease Continuously Without Changing The Average Price Level. (Schiller, 2006).

The Occurrence Of Inflation Can Be Caused By Two Factors, Namely Demand And Supply Called Demand Pull Inflation And Cost Push Inflation. Demand Pull Inflation Occurs During Rapid Economic Development Where High Employment Opportunities Will Increase The Value Of Income So That Expenditure Will Exceed The Production Capacity Of Goods And Services. Cost Push Inflation Occurs When Economic Development Is Rapid Where Low Unemployment Will Cause Business Actors Who Have Increased Demand To Try To Increase The Production Of Goods And Services By Increasing The Salaries And Wages Of Workers And Opening Job Vacancies To Increase The Number Of Workers With Higher Salaries. (Sukirno, 2010).

According To Sutawijaya (2012), There Are Two Types Of Inflation According To The Origin Of The Location, Namely:

1. Domestic Inflation (Domestic Inflation), Namely Inflation That Occurs As A Result Of Financing The Government's Budget Deficit Using Newly Minted Money And Failing Domestic Production.
2. Foreign Inflation (Imported Inflation), Namely Inflation That Occurs As A Result Of The Occurrence Of Inflation Abroad. The Occurrence Of Inflation Abroad Will Increase The Price Of Imported Goods So

That The Price Of Domestic Goods That Depend On These Imported Products Will Increase.

## 2.2. Money Supply

According To Sukirno (2010), The Amount Of Money In Circulation Is All Types Of Money Circulating In The Economy Of A Country. Included In The Money Supply Are Money Circulating In The Community And Money In Banks. This Understanding Is Then Divided Into Two, Namely A Limited Understanding And A Broad Understanding. The Limited Definition (M1) Is The Currency Circulating In The Community Plus Demand Deposits Owned By Individuals, Business Actors, And Also Government Agencies. The Broad Definition (M2) Includes: (I) Currency Circulating In The Community, (Ii) Demand Deposit And (Iii) Quasi Money, Which Consists Of Time Deposits, Savings Accounts, And Foreign Exchange Accounts Owned By The Private Sector And Domestic.

According To Murni (2006), The Money Supply Is Regulated By The Policies Issued By The Central Bank. The Objectives Of The Policy Are: (I) Ensuring A Sufficient Supply Of Money To Achieve Economic Growth, (Ii) Controlling The Money Supply So That It Is Neither Too Short Nor Too Short So That People's Economic Activities Are Not Disrupted By Inflation And Deflation. The Targets Of The Central Bank's Policy Are: (I) Increasing The Money Supply Using An Easy Money Policy If Economic Activity Is Sluggish, And (Ii) Reducing The Money Supply Using A Tight Money Policy. If Inflation Occurs.

The Level Of The Money Supply Is Determined By The Policies Of The Central Bank And Household Actors As Money Holders And Banks As Money Custodians. The Amount Of Money In Circulation, Namely Foreign Currency Owned By The Public And Deposits In Banks, Can Be Used By Household Players To Make Transactions. (Symbol, 2010).

The Money Supply Is Closely Related To Inflation. Quantity Theory (Irving Fisher's Theory) States That Inflation Will Only Occur If The Money Supply (Currency And Demand Deposits) Increases When There Is An Increase In Prices. Therefore, Even If There Is An Increase In The Price Of Goods But There Is No Increase In The Volume Of The Money Supply, Inflation Will Not Occur.

Akinbobola's Research (2012), Explains That The Money Supply Has A Negative Effect On Inflation. This Adds Further Problems Regarding The Theoretical Relationship Between The Money Supply (Jub) And Inflation Described In Traditional Macroeconomic Theory Where The Money Supply (Jub) Should Have A Positive And Significant Relationship To The Price Level In The Long Run. A Possible Justification For The Negative Effect Of Jub On Inflation Is That Jub Is Not Directly Affected By Aggregate Demand But Is Directly Affected By A Temporary Decline In The Supply Chain Of Goods Both From Within The Country And Abroad.

## 2.3. External Debt

Foreign Debt Is All Debt Loans Obtained By The Government From Foreign Debt Lenders By Agreement And Not In The Form Of Government Securities Which Must Be Paid With Pre-Determined Conditions. Foreign Debt Is Needed Because Of The Need For Government Spending That Cannot Be Postponed And Also Creates Productive Assets For Future Needs Through Infrastructure Development And Also Education Development As Well As To Support Economic Growth So That It Is At The Desired Level.

When It Comes To Foreign Debt, Foreign Investment, And The Rate Of Inflation Growth Also Contribute To National Economic Growth. Prices Of Goods And Services Can Significantly Affect Supply And Demand Activities In The Market (Rambe Et Al., 2018 And Rangkyut And Sari, 2019). Foreign Debt Can Be An Additional Capital For The Government To Carry Out Economic Development And Infrastructure Development. But High Foreign Debt Can Increase Inflation. The Budget Deficit Can Be Reduced Through The Sale Of Government Bonds Or By Increasing The Money Supply. The Situation Will Get Worse If High

Foreign Debt Will Cause Default (Default) So That The Domestic Currency Will Depreciate Against Foreign Currencies (Yudiarti Et Al, 2018).

The Foreign Debt Limit Regulation Regulated In Law (Uu) Number 17 Of 2003 Concerning State Finance Is That The Maximum Debt Ratio Is 60% To Gross Domestic Product (Gdp).

#### **2.4. Islamic Bank Money Market**

The Sharia Interbank Money Market (Puas) Is Used In Indonesia As A Tool To Minimize Excess Liquidity In Addition To The Use Of Bank Indonesia Sharia Certificates (Sbis). The Sharia Interbank Money Market (Puas) Is The Main Instrument Used Before The Sharia Bank Indonesia Certificate (Sbis), Because The Auction Process In The Sharia Interbank Money Market (Puas) Is Much Easier And Can Be Done Every Day. So That There Is More Liquidity Through The Islamic Interbank Money Market (Puas) (Nurmaida, 2018).

The Sharia Interbank Money Market (Puas) Conducts Financial Transactions Using Rupiah And Foreign Currencies In The Short Term Between Banks By Applying Sharia Principles. Sharia Interbank Money Market Instruments (Puas) Are Financial Instruments Applying Sharia Principles Issued By Sharia Commercial Banks (Bus) Or Sharia Business Units (Uus) Used In Transactions In The Sharia Interbank Money Market (Puas).

Participants In The Sharia Interbank Money Market (Puas) Are Sharia Commercial Banks (Bus), Sharia Business Units (Uus), Conventional Banks, And Foreign Banks. Participants In The Sharia Interbank Money Market (Puas) May Be Represented By The Brokerage Company In Conducting Transactions In The Sharia Interbank Money Market (Puas). Participants In The Sharia Interbank Money Market (Puas) And Brokerage Companies Must Comply With The Regulations Stipulated By Bank Indonesia Regarding The Provisions For Transactions In The Sharia Interbank Money Market (Puas).

The Transaction Mechanism For The Islamic Interbank Money Market Instrument Is As Follows:

- a. Sharia Commercial Banks (Bus), Sharia Business Units (Uus), Conventional Banks Or Foreign Banks May Purchase Sharia Interbank Money Market Instruments Issued By Sharia Commercial Banks (Bus Or Sharia Business Units (Uus).
- b. Sharia Commercial Banks (Bus), Sharia Business Units (Uus), Conventional Banks Or Foreign Banks May Transfer Ownership Rights To Sharia Interbank Money Market (Puas) Instruments Before The Maturity Date Of The Sharia Interbank Money Market Instruments (Puas) As Stipulated In Bank Indonesia Regulations.
- c. In Conducting Transactions In The Sharia Interbank Money Market (Puas), Both At The Time Of Issuance And Transfer Of Ownership Of The Sharia Interbank Money Market Instruments (Puas Before Maturity, Sharia Commercial Banks (Bus), Sharia Business Units (Uus), Conventional Banks, Or Foreign Banks Can Be Represented By Brokerage Companies.
- d. Sharia Commercial Banks Or Sharia Business Units That Issue Sharia Interbank Money Market Instruments (Puas) Include Information Relating To Sharia Interbank Money Market Instruments (Puas) To Sharia Commercial Banks (Bus), Sharia Business Units (Uus), Conventional Banks Or The Foreign Bank That Will Conduct The Transaction To Purchase The Sharia Interbank Money Market (Puas) Instrument.
- e. The Types Of Islamic Interbank Money Market (Puas) Instruments That Can Be Transferred Before The Maturity Date And The Procedures For The Transfer Of Such Property Rights And Information Relating To The Sharia Interbank Money Market (Puas) Instruments As Referred To In Point 4 Will Be Further Regulated With The Provisions Stipulated In The Following Paragraphs: Regulate The Islamic Interbank Money Market (Puas) Instrument.
- f. Sharia Commercial Banks (Bus) Or Sharia Business Units (Uus) That Place Funds In Other Instruments Issued By Foreign Banks Are Required To Comply With Sharia Principles.

## 2.5. Islamic Bank Financing

Sharia Bank Financing Is The Distribution Of Financing Capital With The Application Of Sharia-Compliant Principles Through Shariah Companies. Sharia Company Is A Sharia Bank Financing Company And Sharia Business Unit. Sharia Bank Financing Has Three Categories, Namely Buying And Selling Financing, Investment Financing, And Service Financing. Sharia Bank Financing Has A Written Agreement Between The Sharia Company As The Lender And The Borrower Stating The Rights And Obligations Between The Two Parties Based On Sharia Principles. Sharia Principles Are Legal Provisions In Islam That Refer To The Fatwa Issued By The National Sharia Council Of The Indonesian Ulema Council.

Sharia Bank Financing Activities Conducted By Sharia Companies Must Be Supervised By The Sharia Supervisory Board. Every Sharia Company Conducting Sharia Bank Financing Must Ensure That The Sharia Supervisory Board Has Evaluated The Implementation Of Sharia Principles, Namely:

- a. Fund Lending And Islamic Bank Financing Activities.
- b. Evaluation Of Standard Operating Procedures.
- c. Sharia Bank Financing Marketing Practices Carried Out By Sharia Companies.
- d. Accounting Application

## 3. Research Methodology

This Type Of Research Is A Type Of Quantitative Research. This Research Data Is Secondary Data From Bps, Bank Indonesia, The Financial Services Authority, And The Ministry Of Trade For 2009-2019. Data Obtained By Library Resourch And Searching On The Internet. The Variables In This Study Consisted Of 4 Independent Variables, Namely The Amount Of Money Supply ( $X_1$ ), Foreign Debt ( $X_2$ ), Islamic Interbank Money Market ( $X_3$ ) And Islamic Bank Financing ( $X_4$ ), And There Is 1 Independent Variable, Namely Inflation ( $Y$ ).

The Data Analysis In This Study Was Assisted By The Warppls.7.0 Application. In The Wrap Pls Test, Information On The Results Of The Inner Model And Outer Model Is Obtained. In Warp Pls Analysis, Validity Is Measured Using Two Instruments, Namely Convergent Validity And Discriminant Validity. Likewise For Reliability With Warp Pls Analysis, Reliability Is Known Through Two Instruments Including Composite Reliability And Cronbach's Alpha After Knowing The Results Of The Outer Model And Inner Model, It Can Be Used To Answer The Hypothesis By Looking At The Results Of The T-Test, If The P-Value 0, 05 (Alpha 5%), It Can Be Concluded That It Is Significant, And Vice Versa (Ghozali & Latan, 2014).

## 4. Results And Discussion

### 4.1. Result

#### 4.1.1. Reliability And Validity Test

To Meet The Requirements Of The Data Validity Test According To Sholihin And Ratmono (2013), It Must Meet The Requirements Of Convergent Validity Where Loading Factor  $> 0.7$  And P Value  $< 0.05$  And For Determinant Validity Of Ave Root In The Construct  $>$  Ave Root On Other Variables. The Results Of The Validity Of This Study Are:

**Table 1.** The Combination Of Loading Factor And Cross Loading

	X1	X2	X3	X4	Y	Type (A)	Se	P Value
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X1	1.000	0.000	0.000	0.000	0.000	Reflect	0.071	<0.001
X2	0.000	1.000	0.000	0.000	0.000	Reflect	0.071	<0.001
X3	0.000	0.000	1.000	0.000	0.000	Reflect	0.071	<0.001
X4	0.000	0.000	0.000	1.000	0.000	Reflect	0.071	<0.001
Y	0.000	0.000	0.000	0.000	1.000	Reflect	0.071	<0.001

Source: Warppls Processed

Based On The Results Of Research For All Indicators On Variables X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>, X<sub>4</sub> And Y Have Met Convergent Validity, As Evidenced By The Results Of Factor Loading > 0.70 And P < 0.005 And Have Met Discriminant Validity, For All Indicators On X<sub>1</sub>, X<sub>2</sub> Variables ,X<sub>3</sub>, X<sub>4</sub> And Y Have Met Discriminant Validity And Are Proven By The Value Of Loading > Cross Loading.

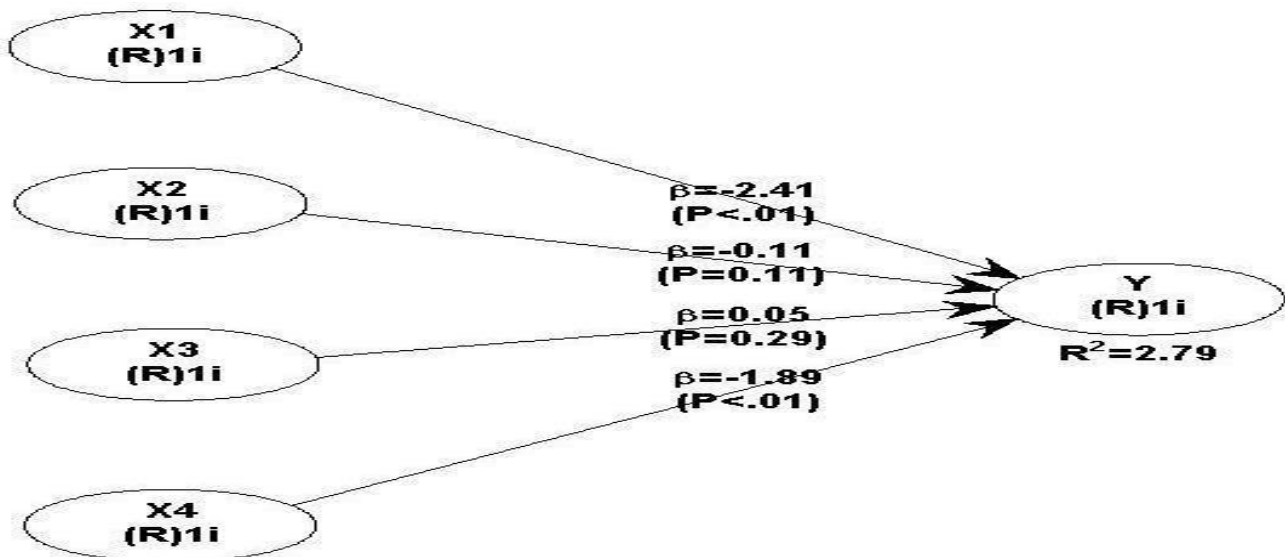
**Table 2. As For The Reliable Value Of This Data Are:**

X1	X2	X3	X4	Y
1.000	1.000	1.000	1.000	1.000

From The Table 2 Above, It Can Be Seen That The Composite Reliability Value Of Each Variable Has A Value Above 0.6. Which Means That All Variables Starting From X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>, X<sub>4</sub> And Y In The Model Have Met A Good Reliability Test.

#### 4.1.2. Hypothesis Test

According To Solihin (2013) Hypothesis Testing Was Carried Out To Test The Significance Of The Path Coefficients In The Model. To Conclude Whether The Path Or Research Hypothesis Is Proven, A Cut-Off Value Of P-Value <0.05 Is Used. Thus, If The P-Value In The Path Being Tested Is <0.05, Then The Research Hypothesis Is Proven. The Results Of Overall Hypothesis Testing Can Be Seen In Figure 4 Below :



**Figure 1. The Model Based On Hypothesis Testing**

With The Details Of The Path Coefficient Values And P-Values As Follows:

**Table 3. Path Coefficient Table**



	X1	X2	X3	X4	Y
Y	-2.412	-0.109	0.051	-1.893	

**Table 4. P-Values**

	X1	X2	X3	X4	Y
Y	<0.001	0.112	0.288	<0.001	

From The Figure And Table Above, It Can Be Seen That The Effect Of  $X_1$  On Y Has A Value Of - 2.412, Which Means That  $X_1$  Has A Negative Effect Of -0.984 On Y. If The Value Of  $X_1$  Increases One Unit, Then The Value Of Y Decreases By -2.412. P Value For  $X_1$  Is  $0.001 < 0.05$  Which Means That  $X_1$  Has A Significant Effect.

The Value Of  $X_2$  To Y Is -0.109 Which Means That  $X_2$  Has A Negative Effect Of -0.109 On Y. If The Value Of  $X_2$  Increases By One Unit, The Value Of Y Increases By -0.109. P Value For  $X_2$  Is  $0.112 > 0.05$  Which Means That  $X_2$  Has No Significant Effect.

And The Value Of  $X_3$  On Y Is 0.051, Which Means That  $X_3$  Has A Positive Effect Of 0.051 On Y. If The Value Of  $X_3$  Increases One Unit, Then The Value Of Y Decreases By 0.051. As For The P Value, It Is Known To Be  $0.288 > 0.05$ , Which Means That  $X_3$  Has No Significant Effect.

The Effect Of  $X_4$  On Y Has A Value Of -1.893 Which Means That  $X_4$  Has A Negative Effect Of 1.893 On Y. If The Value Of  $X_4$  Increases One Unit, Then The Value Of Y Decreases By 1.893. P Value For  $X_4$  Is  $0.001 < 0.05$  Which Means That  $X_4$  Has A Significant Effect.

In Addition To The Path Coefficient Values Listed Above, There Is An R Value Of 2.79, Which Means That 279% Y Can Be Explained By Variables  $X_1$ ,  $X_2$ ,  $X_3$  And  $X_4$ .

## 4.2. Discussion

### 1. The Influence Of The Money Supply On Inflation.

From The Research Results, It Is Known That The Money Supply Has A Negative And Significant Effect On Inflation. This Is In Line With Akinbobola's Research (2012), Which Explains That The Money Supply Has A Negative Effect On Inflation. This Adds Further Problems Regarding The Theoretical Relationship Between The Money Supply (Jub) And Inflation Described In Traditional Macroeconomic Theory Where The Money Supply (Jub) Should Have A Positive And Significant Relationship To The Price Level In The Long Run. A Possible Justification For The Negative Effect Of Jub On Inflation Is That Jub Is Not Directly Affected By Aggregate Demand But Is Directly Affected By A Temporary Decline In The Supply Chain Of Goods Both From Within The Country And Abroad.

### 2. The Effect Of External Debt On Inflation

Similar To The Money Supply, Foreign Debt Has A Negative But Not Significant Effect. Directly, Foreign Debt Has No Effect On Inflation. If Foreign Debt Increases, It Will Reduce Inflation, Because The Effect Of Using Foreign Debt Funds Depends On How To Allocate It.

### 3. The Influence Of The Islamic Interbank Money Market On Inflation

From The Research Results, It Is Known That The Islamic Interbank Money Market Has A Positive But Not Significant Effect On Inflation. If The Value Of The Islamic Interbank Money Market Increases, It Can Increase The Inflation Rate. However, Directly, The Interbank Islamic Money Market Does Not Have A Significant Value.

#### 4. The Effect Of Islamic Bank Financing On Inflation

Islamic Bank Financing Has A Negative And Significant Effect On Inflation. Which Means That If The Amount Of Financing For Islamic Banks Is Increased, It Will Reduce The Inflation Rate. This Is In Line With The Research Of Hadi, Et Al. (2020) Which Explains That By Using The Impulse Response Function (Irf) The Islamic Bank Financing Variable Responds Negatively To Inflation, While The Analysis Of Variance Decomposition Explains That The Islamic Bank Financing Variable Has A Small Average Contribution. In Addition, The Inflation Variable Does Not Have A Causal Relationship With Other Variables, Only With The Islamic Bank Financing Variable, Which Is A One-Way Causality Relationship. This Is Caused By The Inflation Variable Itself Which Has A Greater Influence Than The Variables Of Other Sharia Instruments.

#### 5. Conclusion

From The Research Conducted, It Can Be Seen That During The Period 2009 To 2019 The Money Supply And Islamic Financing Had A Negative And Significant Effect On Inflation. The One That Has The Biggest Influence Is The Money Supply. Meanwhile, Foreign Debt And The Money Market Of Islamic Banks Cannot Directly Affect Inflation.

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