

## The Role of Inflation and Household Consumption in Economic Growth toward Indonesia's Golden Era 2045

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### ABSTRACT

This study examines the roles of inflation and household consumption in driving Indonesia's economic growth toward the "Golden Indonesia" vision. Background: inflation affects purchasing power and policy credibility, while consumption is the main engine of aggregate demand. Objective: to analyze how controlled inflation and sustainable consumption jointly support inclusive, long-term growth. Method: qualitative synthesis of recent literature and policy analyses to identify mechanisms linking price stability, fiscal-monetary measures, and consumption patterns. Results: disciplined inflation management combined with targeted fiscal support for productive consumption and social protection preserves real incomes, stimulates demand, and promotes equitable investment and welfare gains essential for Indonesia's development goals.

## INTRODUCTION

Sustained and well-managed economic growth is central to Indonesia's ambition of becoming a prosperous, high-income nation by 2045. The body of literature and recent empirical observations make clear that inflation dynamics play a pivotal role in shaping the macroeconomic environment in which households, firms, and public policy interact. Rising fuel prices and commodity shocks, as documented by Sarbaini and Nazaruddin (2023), directly weaken household purchasing power and increase business costs, disproportionately harming lower-income groups and small enterprises. Such distributional effects not only undermine welfare but can also erode aggregated demand, reduce productive investment, and retard inclusive growth. At the same time, several studies emphasize that inflation is not merely a welfare metric but a crucial indicator of macroeconomic stability (Panjaitan & Wardoyo, 2017; Roziah et al., 2023). Persistent upward pressure on the general price level signals frictions in supply-demand balances, monetary and fiscal misalignments, or structural bottlenecks that impede the economy's capacity to expand sustainably. If left unaddressed, entrenched inflation expectations can distort saving and investment decisions, complicate monetary policy, and inhibit the accumulation of human and physical capital necessary for long-term development (Damanik et al., 2022; Rizani et al., 2023).

Managing inflation, therefore, becomes a precondition for creating the stable price environment conducive to higher real incomes, predictable business planning, and broader participation in economic opportunities. Yet policy discourse and evidence also point to a nuanced relationship between inflation and growth: while high and volatile inflation is generally detrimental, very low or deflationary pressures can be symptomatic of weak demand and underutilized resources. This opens space for calibrated policies that allow moderate inflation to coexist with strong growth, provided real incomes and purchasing power are protected, and price volatility is minimized (Almaya et al., 2021). Policy levers that expand production capacity—including measures to increase output, stabilize supply chains, and incentivize investment—can raise the supply of goods and services, reducing upward price pressures while fostering employment and productivity gains. Such supply-side strategies, together with targeted social protection and price-stabilization mechanisms, help keep consumption expenditure resilient and support domestic demand without igniting runaway inflation. Investment emerges repeatedly in the literature as a complementary and indispensable force for growth.

Empirical analyses from regional studies like Sudirman and Alhudhori (2018) and macro studies referenced here indicate that investment boosts productive capacity, spurs innovation, and raises potential output—thereby helping to accommodate higher demand without excessive inflationary pressures. Conversely, income inequality, poverty prevalence, and human development constraints can dampen the effectiveness of investment in promoting inclusive growth, highlighting the need for policies that link investment flows to human capital improvements and poverty reduction (Khoirudin et al., 2023; Damanik et al., 2022). The experience of Indonesia also

underscores the role of labor market dynamics: research suggests that unemployment reduction and job creation are strongly associated with higher growth, as they expand household incomes and stabilize consumption patterns (Regina, 2022). Ensuring that investments are labor-absorbing and that macroeconomic policy supports employment generation is therefore essential for translating aggregate expansion into improved welfare. Fiscal instruments such as value-added tax adjustments, considered in Agasie and Zubaedah (2022), require careful calibration to balance revenue needs with distributional impacts; poorly timed or regressive tax changes can exacerbate inflationary burdens on vulnerable groups and hinder domestic consumption.

Complementary policies advocating price ceilings for essential goods, targeted subsidies, and production incentives (Almaya et al., 2021) can mitigate short-term price shocks while structural reforms address the root causes of supply constraints. Achieving Indonesia's 2045 vision demands a coherent strategy that integrates inflation control with proactive measures to stimulate productive investment. Macro-stability reinforced by prudent monetary and fiscal frameworks creates predictable conditions that mobilize both domestic and foreign capital. Simultaneously, policies that enhance human capital, expand infrastructure, and improve governance will raise the returns to investment and reduce the likelihood that growth will be accompanied by destabilizing inflation. In sum, the challenge for policymakers is to strike the right balance: suppressing excessive and volatile inflation that harms purchasing power and the poor, while enabling a moderate inflationary environment in which demand and investment can drive sustainable increases in output and employment.

Addressing distributional vulnerabilities, strengthening supply-side capacities, and promoting inclusive investment are therefore essential complements to inflation management if Indonesia is to realize the goals of prosperity and high income by 2045. The purpose of this study is to determine the role of inflation and investment on economic growth in order to support policy design for Indonesia's advancement toward the Indonesia Emas 2045 vision.

## **METHODOLOGY**

This study adopts a descriptive qualitative methodology to explore perceptions of inflation control and the role of investment in promoting economic growth toward Indonesia Emas 2045. Data were collected through semi-structured, in-depth interviews with four purposively selected respondents: one Head of Sub-division for Economic Affairs and three staff members from the Ministry of Trade. Fieldwork took place from 02/01/2026 to 04/30/2026, enabling temporal triangulation across policy updates and market developments. The interview protocol focused on respondents' experiences with inflation management, investment promotion, policy coordination, and perceived constraints to inclusive growth. Interviews were audio-recorded with consent, transcribed verbatim, and supplemented by relevant official documents and public policy statements to enrich contextual understanding.

Data analysis employed thematic coding in an iterative manner: initial open coding to identify salient concepts, axial coding to relate categories, and selective coding to consolidate core themes. Analytical rigor was assured through member checking with respondents, peer debriefing with academic colleagues, and maintenance of an audit trail documenting decisions and code development.

Ethical considerations included informed consent, confidentiality guarantees, and secure storage of recordings and transcripts.

The research sequence consisted of:

- 1) preparation and literature review to frame interview guides;
- 2) gaining institutional permissions and scheduling respondents;
- 3) conducting pilot testing of the interview instrument and refining questions;
- 4) carrying out in-depth interviews and collecting documentary evidence between February and April 2026;
- 5) transcribing and organizing data;
- 6) iterative coding and thematic analysis;
- 7) validating findings via member checks and triangulation with documents; and 8) synthesizing results and drafting implications for policy

The study emphasizes descriptive depth over generalizability, aiming to surface nuanced insights from policy actors on how inflation control and investment strategies can be aligned to foster sustainable, inclusive economic growth for Indonesia's 2045 aspirations.

## **RESEARCH RESULT**

As of March 2026, Indonesia's household consumption indicators reflect a cautiously expanding but structurally uneven recovery in domestic demand. The national Household Consumption Index (IKRT) rose by 0.53% month-on-month, signaling modest momentum in spending that is nevertheless concentrated across specific categories. The strongest monthly gains were recorded in clothing and footwear, suggesting renewed discretionary spending possibly tied to seasonal purchases or improvement in consumer confidence among households with stable incomes. At the same time, year-on-year increases in core food staples – notably regular rice, broiler chicken, and consumption eggs – have altered purchasing patterns and real budget shares for many households.

Rising food prices compress real incomes, particularly for lower-income and urban poor households who allocate a larger fraction of their expenditures to food, forcing substitution toward cheaper staples or reduced consumption of higher-value items. The reference figure for real per capita expenditure at the end of 2025 – roughly Rp12.8 million per year (about Rp1.06 million per month) – provides context: modest month-to-month increases in the IKRT may be insufficient to offset real purchasing power losses when food inflation accelerates. This mixed picture implies that aggregate consumption growth may persist, but its composition and inclusivity remain fragile. Durable and discretionary segments could expand if employment and wages improve, yet the welfare of vulnerable groups hinges on controlling staple-food inflation and ensuring targeted social transfers.

For policymakers, the March 2026 patterns underscore the importance of supply-side measures to stabilize food prices, support for labor-market recovery to sustain non-food spending, and monitoring consumption composition to detect early signs of demand weakening. In short, modest overall consumption growth coexists with inflation-driven pressures on household budgets, highlighting the need for calibrated interventions to preserve purchasing power while fostering broader-based demand recovery.

## **DISCUSSION**

Inflation and household consumption play central roles in determining the direction of Indonesia's economic growth toward the "Golden Indonesia." Inflation, as an indicator of economic stability, affects the confidence of economic actors, purchasing power, and the fiscal-monetary policies adopted by the government (Panjaitan & Wardoyo, 2017). When inflation is controlled, prices remain relatively stable so household consumption can continue consistently, driving aggregate demand and providing space for productive investment that supports long-term growth (Roziyah et al., 2023).

Household consumption occupies a large share of Indonesia's GDP; domestic consumption is the main engine of aggregate demand. An increase in consumption coupled with productivity gains and more equitable income distribution will accelerate the attainment of national prosperity – the primary goal of development (Damanik et al., 2022). However, rising consumption without inflation control can trigger price increases that erode the real purchasing power of the population – especially low-income groups – putting welfare targets at risk (Roziyah et al., 2023).

Price stability is also related to households' ability to maintain or increase consumption of goods that improve quality of life, such as education, health, and productive consumption. Stable economic growth and low unemployment raise disposable income, supporting purchasing power stability and sustainable consumption (Rizani et al., 2023). Thus, policies that balance macro stability (controlling inflation) and domestic demand stimulation are key to achieving inclusive growth toward Golden Indonesia.

From a policy perspective, tax adjustments and fiscal measures must consider their impact on inflation and consumption. Studies highlight the urgency of restructuring tax policy, including value-added tax, to align with the national interest principle without excessively suppressing purchasing power (Agasie & Zubaedah, 2022). A combination of pro-growth fiscal policy, monetary policy that keeps inflation within target, and social protection programs for vulnerable groups can preserve real consumption while supporting the accumulation of human and physical capital.

In conclusion, to realize Golden Indonesia, disciplined inflation management and policies that strengthen productive consumption are required. Price stability boosts confidence and reinforces purchasing power; healthy consumption drives demand and investment; while coordinated fiscal-monetary policy and social protection ensure inclusive and sustainable growth (Panjaitan

& Wardoyo, 2017; Roziah et al., 2023; Damanik et al., 2022; Rizani et al., 2023; Agasie & Zubaedah, 2022).

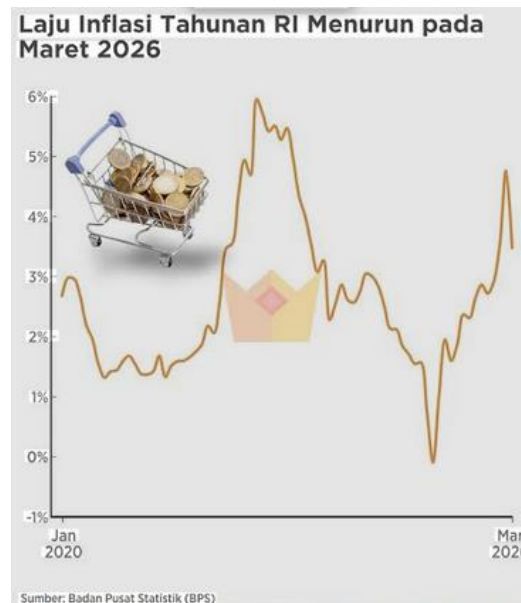


Figure 1 Chart of Inflation

The chart displays Indonesia's annual inflation rate from January 2020 through March 2026, with a clear line tracing several notable cycles. Inflation began around the low-to-mid single digits in early 2020, then dipped toward the 1–2% range before climbing sharply to a pronounced peak above 5% in the following years. After that peak the series shows several oscillations: a descent from the high point into the 2–4% band, a brief recovery, and another marked fall that momentarily approached zero and briefly turned negative. From that trough inflation recovered again, rising steeply to a recent surge near the 5% range before easing into March 2026. The headline message – “annual inflation rate fell in March 2026” – is supported by the final segment of the line, which shows a downward move from the prior spike.

Visual elements such as a shopping-cart filled with coins emphasize consumer price impacts, while the chart's vertical axis ranges from about -1% to 6%, indicating both deflationary and high-inflation episodes over the period. The graphic cites Indonesia's Central Bureau of Statistics (BPS) as the data source, underscoring this as an official macroeconomic time series that highlights volatility as well as the recent easing in inflation.

## CONCLUSIONS AND RECOMMENDATIONS

Controlled inflation and sustained household consumption are essential to achieving inclusive, long-term growth toward Indonesia's Golden Era. Recommendation 1: Maintain disciplined monetary policy to keep inflation within target while implementing targeted fiscal measures – such as conditional transfers and support for education, health, and small businesses – that stimulate productive consumption without overheating demand. Recommendation 2: Reform tax policy to be more progressive and broad-based (minimizing regressive VAT effects), strengthen social protection and active labor-market programs to protect incomes, and invest in supply-side improvements (infrastructure, logistics, food security) to reduce cost-push inflation and support sustainable, equitable growth.

## ADVANCED RESEARCH

The study is limited by reliance on secondary sources and broad national-level analysis, which may overlook regional variations, informal sector dynamics, and short-term shocks that affect inflation and consumption. Data timing and heterogeneity in methodologies across cited works constrain causal inference and policy specificity. Future research should use microdata, panel methods, and disaggregated regional analyses to capture distributional impacts and sectoral responses. Experimental or quasi-experimental evaluations of fiscal and social protection interventions would clarify effectiveness. Policymakers should pilot targeted measures, improve data collection, and coordinate monetary-fiscal actions while monitoring distributional outcomes to refine scalable policies.

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