



THE IMPACT OF INFLATION ON MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN INDONESIA

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Abstract

This research aims to determine the influence of the impact of inflation on MSMEs in Indonesia. The impact of inflation on Micro, Small and Medium Enterprises (MSMEs) in Indonesia can be a serious problem for business owners. Inflation can cause increases in the prices of raw materials, labor, and utilities, which in turn can reduce MSME profit margins. Therefore, having the right strategy to deal with inflation is very important for MSMEs to maintain their competitiveness. In addition, research shows that MSME labor and MSME investment have a positive and significant effect on the national income of the MSME sector in Indonesia. Meanwhile, the number of MSME units does not affect the national income of the MSME sector in Indonesia. Overall, the impact of inflation on MSMEs in Indonesia is a complex topic and requires a deep understanding of economics and business. This impact not only affects MSMEs, but also the Indonesian economy as a whole. Therefore, it is important for MSME owners to understand and prepare the right strategy to deal with inflation.

Keywords: *MSMEs, Inflation, and Impact of Inflation.*

BACKGROUND

MSME is an abbreviation for Micro, Small and Medium Enterprises. MSMEs are productive economic enterprises managed by individuals, households or business entities. Micro, Small and Medium Enterprises (MSMEs) contribute to supporting the economy in Indonesia. The MSME sector has been driving the economy in Indonesia. Apart from that, the MSME sector also plays a role in the potential for employment, and also plays a role in distributing development results or production results. Micro, Small and Medium Enterprises (MSMEs) also have a large role in gross domestic product (GDP) in Indonesia. From the results of BPS data and reports from the Ministry of Cooperatives and SMEs, in 2018 the contribution from MSMEs in Indonesia was around 60.34% of GDP.

Significant economic growth is a method used to increase the ability of an economy to produce a product or service. Inflation is the most important thing for the Government to pay attention to in growing the economy in Indonesia. In Indonesia, inflation is not only influenced by demand pull, but also influenced by cost push, therefore, in order to achieve effective inflation targets, cooperation is needed between the government and Bank Indonesia (BI). Cooperation between the government and BI in 2005 was successfully realized in the form of the formation of Inflation Monitoring and Control (TPI), a Target Determination Coordination Team at the central level. From an economic perspective, inflation is a monetary phenomenon for a country because economic turmoil is caused by the rise and fall of inflation. Inflation is an indication that the general price level is experiencing a continuous increase.



Continuously increasing inflation in Indonesia has had a significant impact on the growth and development of Micro, Small and Medium Enterprises (MSMEs). MSMEs are experiencing difficulties in running their businesses due to increases in raw material prices and operational costs. Then people's purchasing power also decreased due to inflation, so that the turnover of MSMEs became very low. Therefore, to help MSMEs face inflation, appropriate strategies and policies are needed.

This research aims to explore the impact of inflation on MSMEs in Indonesia, as well as finding solutions that can help this sector survive and develop amidst increasingly complex economic pressures.

THEORETICAL FRAMEWORK

Understanding Inflation

High inflation and slow economic growth rates occur in many developing countries. Inflation is a process of general and continuous increase in prices over a certain period of time. This event reflects that the purchasing power of money is decreasing, meaning that each unit of currency will buy fewer goods and services over time.

Inflation is a very important economic indicator. We always try to keep inflation growth low and stable so that it cannot cause macroeconomic problems which will result in an unstable economy. Inflation also has positive and negative impacts on the economy. If a country's economy experiences weakness, Bank Indonesia can implement monetary policy by reducing interest rates. High and unstable inflation is a picture of an unstable economy, resulting in continuous increases in the price level of goods and services, and resulting in very high poverty in Indonesia. Because inflation is very high, the prices of goods and services are also high. So that people who were initially able to meet their daily needs, became unable to meet their needs and this resulted in an increase in poverty due to the level of inflation in Indonesia from year to year.

The country must overcome the problem of economic growth that occurs in the long term, with high hopes of achieving rapid economic improvement. The country's goal is to accelerate the process of economic growth. Economic growth is a process of increasing output per capita that is sustainable in the long term. The economic health of a country is determined by its economic growth, which is also an important condition for the nation's progress and prosperity. If a country fails to increase its economic growth, new economic and social problems will arise, such as increasing poverty. All of these factors influence and are related to each other, and can influence the economic situation of society and the government. So it is necessary to carry out comprehensive and integrated efforts to deal with inflati

Micro, Small and Medium Enterprises (MSMEs)

Micro, Small and Medium Enterprises (MSMEs) have the meaning of being a group of productive businesses that stand alone, run by individuals or business entities in various economic sectors. MSMEs include several types of businesses with different sizes and scales,



ranging from small businesses managed by individuals or families to medium-sized businesses that are more organized and have a larger workforce. The definition of MSMEs in Indonesia is regulated by Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small and Medium Enterprises, which is as follows:

A. Micro Business

productive companies that meet the Micro Business requirements regulated in this law and are owned by individuals or individual business organizations. According to statutory regulations, a small business is a profitable business that operates independently and is managed by a person or entity that does not directly or indirectly operate as a subsidiary or branch of a medium or large company. With a maximum asset value of IDR 50,000,000,- excluding land and buildings where the business is located, Micro Businesses can earn annual sales of up to IDR 300,000,000.

B. Small Business

If the large and medium business sectors continue to absorb labor consistently, and entrepreneurship development and the formation of new business units are carried out optimally, then open unemployment can be reduced. With the large number of job opportunities available and increasing income, it is hoped that a prosperous Indonesian society will be created. This is difficult to achieve if people still live in poverty and have high levels of unemployment, due to the inequality in control of productive resources that is still clearly visible. Small businesses with assets of more than IDR 50,000,000 to a maximum of IDR 500,000,000, excluding land and buildings where the business is located, have annual sales of between IDR 300,000,000 to a maximum of IDR 2,500,000,000.

C. Medium Enterprises

Medium Enterprises are productive economic enterprises that stand alone, run by individuals or business entities that are not subsidiaries or branches of small or large companies, either directly or indirectly, with total net assets or annual sales proceeds in accordance with those regulated in the Law. -invite. Medium businesses have a net worth of more than IDR 500,000,000 to a maximum of IDR 100,000,000,000, with annual sales of more than IDR 2,500,000,000 to a maximum of IDR 50,000,000,000.

The Impact of Inflation on MSMEs

Inflation, as a general increase in the prices of goods and services in the economy, has a significant impact on Micro, Small and Medium Enterprises (MSMEs). One of the most direct impacts is an increase in production costs. Prices of raw materials, energy and labor wages tend to rise during periods of inflation, so that MSME operational costs increase. MSMEs that have limited capital often find it difficult to adjust to these rising costs, which in turn can reduce their profit margins or even lead to losses.



In addition, inflation can reduce consumer purchasing power. When prices of goods and services rise, consumers tend to reduce their spending, especially on non-essential goods. This has a negative impact on MSMEs that depend on the sale of consumer goods. A drop in demand can lead to a drop in revenue, adding pressure to the survival of already vulnerable small businesses. In the context of capital, inflation also affects loan interest rates. Banks and financial institutions tend to raise interest rates in response to inflation to maintain the value of their money. For MSMEs, higher interest rates mean more expensive borrowing costs. This can make it difficult for MSMEs to access the funds needed for expansion or even for daily operations.

Inflation also has the potential to affect currency values. If inflation in a country is higher than in other countries, its currency exchange rate can weaken. For MSMEs that depend on imported raw materials or that target export markets, exchange rate fluctuations can add uncertainty and risk to business management. An increase in import prices due to currency depreciation could worsen production costs. On the other hand, MSMEs can also experience benefits from inflation under certain conditions. If they have the ability to adjust the selling price of their products faster than costs increase, profit margins can be maintained. In addition, MSMEs operating in sectors where demand remains high or price inelastic may be less affected by a general decline in consumer purchasing power.

Inflation can also encourage MSMEs to innovate and seek operational efficiency. Increasing cost pressures can spur small businesses to find new, more cost-effective ways of production and distribution. Apart from that, inflation can encourage MSMEs to collaborate more closely with suppliers and distributors to get better prices and terms. Overall, the impact of inflation on MSMEs is very complex and varies depending on the sector, business size and the adaptability of each business. The government and financial institutions have an important role in providing support and policies that help MSMEs overcome the challenges they face due to inflation. With the right strategy, MSMEs can survive and even develop even amidst inflationary pressure.

METHOD

This research uses a secondary descriptive approach. According to Sugiyono (2016) Secondary data is a data source that is not received directly by the data collector, either through other people or through documents. Secondary data sources are complementary data sources that function to complete the data required by primary data.

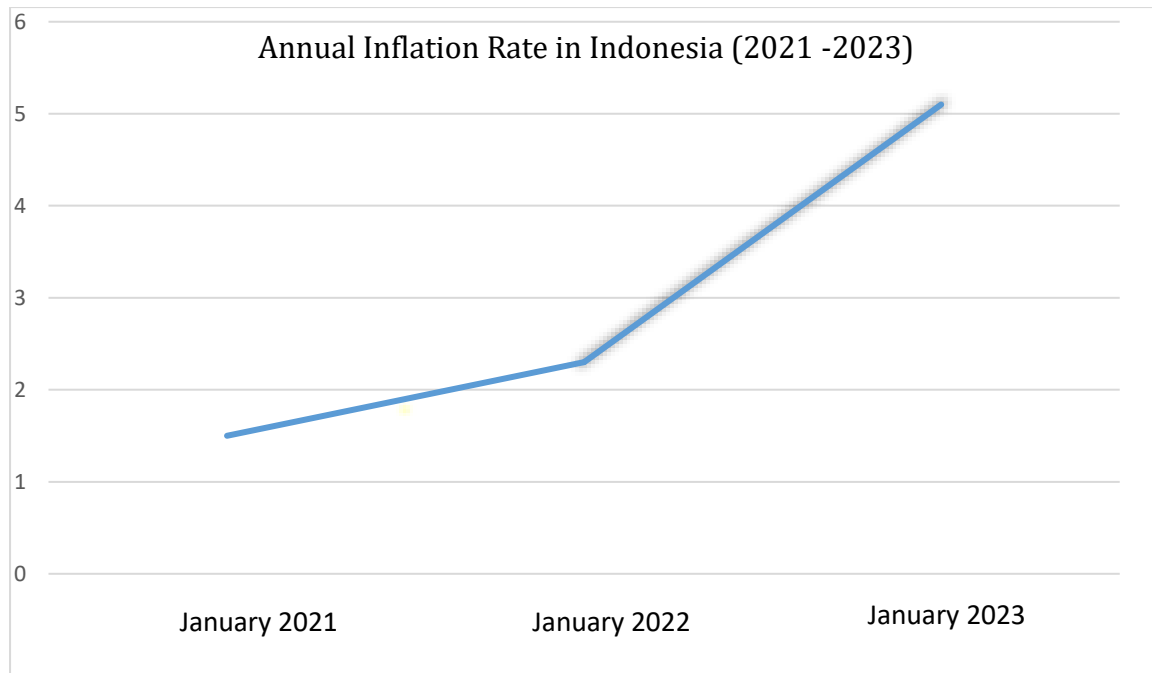
There are several circumstances that allow us to use secondary data, including primary data not being able to answer existing problems. It could be that the primary data obtained is sometimes not able to answer existing problems 100 percent. So because they have to collect other primary data which of course will take a long time and incur large costs, researchers can use secondary data.

The type of data that will be used in this research is secondary data with quantitative data in the form of inflation rate data in Indonesia and the impact of inflation on MSMEs.



RESULT

The data used in this research is data on the rate of inflation in Indonesia in the last 3 years (2021 – 2023). The inflation rate increases from year to year as in the graph below:



(Source : Databoks - Katadata)

Based on the graph above, we can see that the increase in inflation has increased from 2021, namely 1.5%, then in 2022 the inflation rate will be 2.2% and for 2023 it will increase, namely 5.1%. This has a big impact on the Indonesian economy, especially on MSMEs in Indonesia.

DISCUSSION

Based on these results, a continuous increase in inflation will have a major impact on MSMEs in Indonesia, because high inflation is always accompanied by an increase in central bank interest rates to control inflation. The impact on MSMEs is that it can make it difficult to access affordable financing because loan interest rates will be more expensive. This hampers the speed of MSME performance, especially for daily operational activities.

The increase in inflation also affects consumer purchasing power, because prices will be more expensive so consumers will be more selective in their spending, so that sales or turnover of MSMEs will decrease.

Facing inflation, MSMEs need to formulate effective strategies to maintain and develop their business. One of the main strategies is to control production costs. MSMEs can do this by looking for alternative suppliers who offer more competitive prices or by purchasing raw



materials in large quantities to get discounts. Additionally, implementing energy efficiency practices and using technology can help reduce operational costs.

Apart from controlling costs, diversifying products and services is an important strategy. By expanding product or service lines, MSMEs can reach a wider market and reduce the risk of dependence on one type of product or market segment. Diversification also allows MSMEs to adapt to changes in consumer demand that may occur due to inflation. Strategic pricing is also key in dealing with inflation. MSMEs need to consider gradual price increases so as not to surprise customers and cause a drastic drop in demand. Additionally, providing added value to a product, such as better customer service or improved quality, can make consumers more willing to accept a price increase.

Improving operational efficiency is another strategy that is no less important. MSMEs can use technology to automate business processes, reduce waste and increase productivity. A sophisticated inventory management system, for example, can help avoid excess or understocking that could be detrimental to a business in an inflationary situation. Innovative marketing strategies can also help MSMEs remain competitive amidst inflation. Using social media and digital platforms for promotions can reduce marketing costs and reach more customers. Additionally, customer loyalty programs and special discounts can help retain your existing customer base and attract new ones.

CONCLUSION

Based on this research data, the following conclusions can be given and suggestions that can be proposed to support MSMEs in facing the impact of inflation are as follows:

1. **Strengthening Managerial Capacity:** MSMEs need to increase their managerial capacity to manage inflation risks, including better financial planning and the use of effective risk management strategies.
2. **Market Diversification:** Market diversification can help MSMEs reduce dependence on domestic markets and access international markets that are more stable in the face of price fluctuations due to inflation.
3. **Strengthening Infrastructure and Access to Capital:** The government needs to increase investment in infrastructure that supports MSMEs, such as transportation access and internet access. In addition, access to business capital needs to be expanded through loan programs with low interest rates and the development of inclusive financial institutions.
4. **Education and Training:** Entrepreneurship education and training programs can help MSMEs develop the skills and knowledge necessary to increase their competitiveness in markets affected by inflation.
5. **Coaching and Mentoring:** Coaching and mentoring by related parties, such as government agencies, universities and non-profit organizations, can provide technical and managerial support to MSMEs in facing challenges caused by inflation.



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By implementing these suggestions, it is hoped that MSMEs can be more resilient and competitive in facing the impact of inflation and contribute positively to national economic growth.



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