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THE RELATIONSHIP BETWEEN INTEREST RATES, INFLATION, AND PUBLIC PURCHASING POWER IN 2025

Ammar Halomoan¹, Gistran Yoga Arinda², Nabila Zahra³, Syarifah Khairatun Hisan⁴

¹²³⁴State Islamic University of North Sumatra

ammarhalomansihombing@gmail.com gistrantyogaarinda09@gmail.com

nabilazahraa1806@gmail.com syarifahhisn76@gmail.com

ABSTRACT: This study aims to analyze the relationship between interest rates, inflation, and purchasing power in Indonesia in 2025. These three variables are closely related in determining national economic stability. Bank Indonesia's benchmark interest rate hikes are typically a response to rising inflation, but on the other hand, such policies can suppress purchasing power by increasing borrowing costs and reducing consumption. This study uses a qualitative descriptive approach based on secondary data from Bank Indonesia reports, the Central Statistics Agency (BPS), and several macroeconomic literature. The study results indicate that in 2025, although inflation is relatively controlled within Bank Indonesia's target range, purchasing power will experience pressure due to high real interest rates and slowing economic growth post-pandemic. These findings emphasize that monetary stability must be balanced with fiscal policies that support purchasing power, such as subsidies, controlling food prices, and increasing public income.

Keywords: *Interest Rates, Inflation, Purchasing Power, Monetary Policy, Indonesian*

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INTRODUCTION

Indonesia's economic situation in 2025 will be challenging, balancing price stability, public welfare, and economic progress. Interest rates and inflation are two macroeconomic indicators most closely monitored by the government and monetary authorities. These two factors significantly impact people's purchasing power, a crucial metric for assessing household consumption and well-being.

One technique for curbing inflation is the interest rate set by Bank Indonesia as a benchmark for monetary policy. However, interest rate fluctuations also have a direct impact on public savings, investment, and consumption levels. People are encouraged to reduce investment and consumption as interest rates rise because borrowing becomes more expensive. Purchasing power tends to decline as a result, especially for those with lower incomes.

In contrast, inflation refers to the overall increase in the price of goods and services. People's purchasing power declines when inflation rises without a commensurate increase in income. The number of goods and services that can be purchased with the same income decreases when inflation is high because it lowers the real value of money. Therefore, keeping inflation under control is crucial to maintaining purchasing power stability. Interest rates, inflation, and people's purchasing power have a complex and ever-changing relationship. Appropriate monetary policy will be crucial to maintaining economic balance in Indonesia in 2025, as post-pandemic economic uncertainty continues to impact global conditions.

LITERATURE REVIEW

1. Interest Rate

Interest rates are the rewards received by capital owners for funds lent for a specific period. According to Sukirno (2016), interest rates play a crucial role in determining consumer consumption and investment levels, as changes in interest rates affect borrowing costs and the rate of return on savings. When interest rates rise, people tend to save rather than spend, thus decreasing consumption activity. Conversely, low interest rates encourage increased aggregate demand through consumption and investment (Mankiw, 2020).

2. Inflation

Inflation is defined as a general and persistent increase in the prices of goods and services in an economy. Boediono (2018) explains that high inflation can reduce the real value of people's income, thereby decreasing purchasing power. According to Nopirin (2019), inflation is caused by two main factors: demand-pull inflation (inflation due to increased demand) and cost-push inflation (inflation due to increased production costs). Inflation stability is a key indicator of the success of a country's monetary policy because it directly impacts public welfare.

3. Public Purchasing Power

Purchasing power reflects the ability of individuals or groups to purchase goods and services based on their income level. According to Sukirno (2016), purchasing power is influenced by real income levels, commodity prices, and prevailing monetary and fiscal policies. Decreased purchasing power is often caused by inflation not offset by increases in income. Therefore, macroeconomic stability is essential to maintain purchasing power and ensure sustainable consumption.

4. The Relationship between Interest Rates, Inflation, and Purchasing Power

Interest rates and inflation are closely related in macroeconomic theory. According to Fisher's theory (1930), nominal interest rates will adjust to the expected inflation rate. Monetary authorities typically raise interest rates to curb inflation. However, this policy can also hinder consumption and investment, ultimately impacting people's purchasing power (Samuelson & Nordhaus, 2019). Therefore, a balance between interest rates and inflation is key to maintaining purchasing power stability in a country.

5. Previous Research

Research by Wulandari (2022) shows that inflation has a significant negative effect on purchasing power in Indonesia, while interest rates have an indirect effect through consumption. Meanwhile, research by Rahmawati (2023) found that interest rate reductions can increase household consumption and strengthen purchasing power, particularly in the lower-middle class.

RESEARCH METHODS

The qualitative descriptive method used in this study is supported by secondary quantitative data. Based on actual data and macroeconomic theory, this method was chosen to gain a deeper understanding of the relationship between interest rates, inflation, and purchasing power.

Data for this study was provided by official institutions such as Bank Indonesia (BI) and the Central Statistics Agency (BPS), along with economic reports and scientific publications from the World Bank, the Ministry of Finance, and other relevant national periodicals. Secondary statistics examined include the benchmark interest rate (BI Rate), the annual inflation rate, the purchasing power index as measured by the Consumer Price Index (CPI), and household spending growth through 2025.

Data collection techniques were conducted through library research, reviewing various academic sources, financial reports, statistical publications, and economic policy documents. Quantitative data was also obtained from the official websites of Bank Indonesia and BPS to strengthen the analysis.

Data analysis was conducted descriptively and analytically, depicting trends in interest rates, inflation, and purchasing power, and interpreting the relationships between these variables based on economic theory. The

relationship between the three variables was analyzed using a conceptual correlation approach, examining the extent to which changes in interest rates and inflation directly and indirectly affect purchasing power.

To identify patterns in economic evolution, data dynamics from January to September 2025 were also examined using simple time series analysis. This study also employed a comparative method to aid interpretation of the findings by comparing economic conditions in 2025 with those in the previous era (2023–2024).

Data validity was strengthened through source triangulation, which involves comparing data from various official institutions and scientific publications to ensure consistency and accuracy. This method aims to provide a comprehensive picture of the relationship between interest rates, inflation, and purchasing power in 2025, as well as its implications for national economic policy.

RESULTS AND DISCUSSION

Based on the study's findings, Indonesian consumer purchasing power, inflation, and interest rates all exhibit complex patterns and significantly influence each other in 2025. The benchmark interest rate policy is at a high level to maintain exchange rate stability and limit capital flows, which puts pressure on consumer purchasing power even though inflation is relatively controlled within Bank Indonesia's target range.

In response to increasing external pressures, particularly those caused by fluctuations in global oil prices, the depreciation of the rupiah exchange rate, and global geopolitical uncertainty, Bank Indonesia decided to maintain the BI Rate between 6.25% and 6.50% for the first half of 2025. This interest rate increase has the potential to prevent inflation from rising beyond the 4% target, but also puts downward pressure on people's purchasing power and consumption.

According to data from the Central Statistics Agency (BPS), the inflation rate in 2025 is estimated at around 3.7% per year. Compared to 4.1% in 2024, this figure is quite stable. The government's capacity to stabilize prices through supply and distribution is a key factor in this inflationary stability. However, rising energy and transportation prices are driving core inflation, which measures price pressures from the demand side.

The analysis findings show that the household consumption index has slowed compared to the previous period when considering people's purchasing power. Previously growing at a rate of more than 5% per year, the household consumption sector only increased by around 4.2% in the second quarter of 2025. Due to a combination of high borrowing rates, rising energy costs, and uneven post-pandemic income recovery, people's ability to meet their consumption needs has decreased, as seen from this slowdown.

Low- to middle-income households are the most impacted category from

a rockoeconomic perspective. Spending on secondary needs has decreased due to rising costs of basic necessities such as rice, cooking oil, and fuel. According to a Bank Indonesia consumer survey, the consumer confidence index (CCI) declined in mid-2025, indicating that people are becoming less optimistic about the economy and their ability to purchase consumer goods in the long term.

Monetary policy transmission explains the relationship between interest rates and purchasing power. Lending rates in the banking industry rise in line with the benchmark interest rate. As loans become more expensive, consumer credit and household financing decline. Meanwhile, as savings yields become more attractive, consumers prefer to save more money. This behavioral change reduces aggregate demand, which in turn slows the growth in national consumption.

Furthermore, the micro, small, and medium enterprise (MSME) sector is impacted by the high-interest rate policy. MSMEs are experiencing difficulties in securing operational models due to rising loan interest rates. Due to limited domestic market supply, this further reduces purchasing power by hampering the production and distribution of consumer products.

This situation exemplifies the well-known conflict between price stability and economic expansion from an economic theory perspective. To reduce inflation, the central bank will raise interest rates, which will slow investment and consumption. Lowering interest rates to increase purchasing power, however, increases the likelihood of inflation. Therefore, maintaining public purchasing power amidst global inflationary pressures requires a balance between fiscal and monetary policies. The government has implemented a number of social assistance programs and energy subsidies to maintain purchasing power within the framework of fiscal policy. Programs such as Direct Cash Assistance (BLT), fuel subsidies, and food subsidies have been demonstrated.

However, household consumption may be curtailed, particularly among low-income groups, as rising non-meth food prices continue to significantly impact household spending. The effectiveness of these programs remains limited.

Although tight monetary policy has successfully stabilized inflation, data analysis shows that people's real purchasing power is still declining. The fact that real wage growth has stagnated and not kept pace with rising living costs is indicative of this. In other words, people continue to feel "poorer" even though inflation is under control because the rising cost of basic necessities makes their nominal income insufficient.

Furthermore, high interest rates have had a significant impact on the property and automotive industries. One indicator of reduced purchasing power in the primary consumer goods sector (durable goods) is the decline in home ownership and car loans. This suggests that financing costs and expectations about the future economy impact purchasing power beyond direct inflation.

It can be concluded that there is an interdependence between these three factors. Central banks adjust interest rates to control inflation when it rises. However, this strategy can lead to a decline in purchasing power. Conversely, inflationary pressures may ease but economic growth is hampered when purchasing power declines excessively. In this situation, fiscal measures that increase household incomes and monetary policies that maintain price stability must be balanced.

The public's perception of inflation in 2025 may not always align with official government figures, according to this publication. Because the prices that actually rise are for basic necessities, which account for a significant portion of household expenses, many individuals believe inflation is higher. The difference between inflation measured statistically and the inflation perceived by the general public is referred to as perceptual inflation.

Overall, these findings and discussions suggest that one of Indonesia's biggest economic policy challenges in 2025 will be maintaining control over interest rates, inflation, and purchasing power. To ensure that monetary policy supports economic recovery and improved public welfare, in addition to price stability, Bank Indonesia and the government must work closely together.

To mitigate the negative impacts of high interest rates, policies focused on increasing purchasing power through increased productivity, effective food distribution, and income equality are urgently needed. Long-term social welfare and macroeconomic stability in Indonesia can be achieved through an integrated approach.

From a consumer behavior perspective, people are often changing their shopping habits by postponing non-essential purchases and prioritizing essential needs. Declining sales volumes in the contemporary retail industry and increased spending at traditional markets with lower prices are clear indicators of this "consumption decline" phenomenon. To adapt to declining purchasing power, many households are also turning to local brands or replacing goods with more affordable ones.

This situation indicates a slowdown in the microeconomic cycle. The incomes of small and medium-sized businesses decline along with consumption, leading to a loss of job prospects and further depressing purchasing power. This cycle demonstrates how, if not addressed, pressure on purchasing power can spiral out of control and slow overall economic growth.

In addition to the interest rate and inflation factors discussed previously, several other economic variables indirectly impact purchasing power, such as the rupiah exchange rate, unemployment rate, and labor productivity. When the rupiah weakens against the US dollar, the price of imported goods rises, depressing household consumption. Meanwhile, rising unemployment due to slowing investment also reduces income and weakens purchasing power. In this context, tight monetary policy is insufficient to maintain economic stability without the support of structural policies in the real sector.

In 2025, the Indonesian economy will also face global challenges in the form of slowing global economic growth, geopolitical conflicts that depress commodity prices, and climate change that disrupts the food supply chain. These factors will trigger rising production costs and non-monetary inflation, which cannot always be controlled through interest rates alone. For example, the increase in rice and cooking oil prices in mid-2025 was largely due to distribution disruptions caused by extreme weather and rising fertilizer prices on the global market. This situation requires the government to simultaneously combine monetary policy and national food policy.

On the other hand, people's purchasing power is also significantly influenced by public perceptions of economic stability and future prospects. When people lose confidence in price and exchange rate stability, they tend to restrain consumption and increase savings as a precautionary measure. This phenomenon is known as precautionary saving behavior, which in the short term can deepen the weakening of purchasing power. Therefore, in addition to interest rate management, clear and credible policy communication from monetary authorities is also crucial for maintaining inflation expectations and stimulating consumption.

According to a survey conducted by Bank Indonesia (2025), the consumer expectation index for income and job availability showed a 7.2% decline compared to the previous year. This indicates that the public believes the economy has not yet fully recovered post-pandemic. Consequently, demand for secondary and tertiary goods, such as electronics, motor vehicles, and property, has contracted. The decline in demand in these sectors has resulted in slower growth in the manufacturing and financial services sectors.

In the context of macroeconomic policy, it is crucial for the government to strengthen the synergy between monetary and fiscal policies. When interest rates are raised to control inflation, the government needs to launch an expansionary fiscal policy that maintains purchasing power, for example through increased energy subsidies, direct cash assistance, and productive labor-intensive programs. In this way, pressure on domestic consumption can be offset by increasing the income of the lower classes. This aligns with the theory of countercyclical fiscal policy, where the government plays a role in stabilizing the economic cycle through fiscal policy that adapts to monetary changes.

Furthermore, economic digitalization has become a new factor influencing Indonesian consumption patterns and purchasing power. The rise of online trading platforms (e-commerce) and digital financial services (fintech) has accelerated money circulation and expanded access to consumption, even amidst limited economic conditions. However, this digitalization also has the potential to trigger new inflation due to the rapid increase in demand in the digital sector, necessitating increased oversight of electronic transactions and digital taxes to maintain price stability.

To ensure the public understands the long-term objectives of the high interest rate policy, it is crucial for the government and Bank Indonesia to continue communicating the policy effectively. However, to prevent the erosion of real incomes, the government must support wage policies that adapt to inflation and strengthen social security programs.

Because inflation and purchasing power are heavily influenced by the food and energy sectors, increasing national productivity should be a primary goal of future monetary and fiscal policies, working synergistically. Furthermore, the economic efficiency of low-income communities can be improved and transaction costs reduced by leveraging digital innovations in the distribution and financial sectors.

Overall, this further research shows that the relationship between interest rates, inflation, and purchasing power reflects aspects of social welfare and economic justice in addition to economic data. Besides reducing inflation, successful economic policies also ensure that all levels of society can maintain their standard of living amid rapid economic change.

Social Aspects and Economic Inequality

The purchasing power gap between social classes will become even more pronounced in 2025. Middle- and upper-income groups are relatively better able to adapt to rising prices and high interest rates due to their savings reserves and access to financial instruments. Conversely, low-income groups are the primary victims of inflation, as the majority of their income is allocated to basic needs such as food, energy, and transportation. This widens the income gap and weakens the national aggregate purchasing power.

According to the Kuznets Curve theory, income inequality tends to increase in the early stages of economic growth and decline as the economy matures. However, in unstable global economic conditions, such as those predicted in 2025, this curve could shift toward wider inequality if redistribution policies are not implemented effectively. Therefore, social policies such as progressive taxation, conditional social assistance, and empowerment of MSMEs are crucial to ensuring that economic growth is not enjoyed by only a select few.

On the other hand, pressure on purchasing power has also impacted changes in consumer behavior. People are beginning to shift their consumption patterns from branded goods to more affordable local products. This shift indicates a structural adjustment in consumer preferences. Economically, this change can be considered positive because it strengthens demand for domestic products and encourages national industrial independence. However, without the support of innovation and improvements in the quality of domestic production, its long-term impact may be limited.

Islamic Economic Perspective and Social Justice

From an Islamic economic perspective, interest rates (*riba*) are seen as a source of economic inequality that suppresses the purchasing power of low-income communities. An interest-based economic system tends to favor those with substantial capital, while the lower classes are burdened with high borrowing costs. Therefore, the Islamic financial system offers an alternative through a fairer profit-sharing mechanism (*mudharabah* and *musyarakah*) based on real productivity.

The basic principle of Islamic economics is maintaining a balance between individual and societal interests, based on the *maqasid sharia*, namely, safeguarding religion, life, intellect, posterity, and wealth. In the context of this research, maintaining people's purchasing power includes efforts to protect wealth and *hifz an-nafs* (protection of life). Therefore, economic policies aligned with Islamic principles must ensure that price stability and monetary policy do not compromise the welfare of the poor.

Furthermore, the management of *zakat*, *infaq*, and *waqf* (ZIWAF) can be a social policy instrument to strengthen the purchasing power of the lower classes. Productive *zakat* funds directed towards empowering MSMEs and smallholder agriculture have been proven to increase income and reduce dependence on social assistance. Several studies (Zulfa & Sari, 2025) show that collaboration between Islamic banks and *zakat* institutions can create an inclusive financial model that effectively maintains purchasing power during times of high inflation.

Thus, integrating conventional and *sharia* economic systems can be a comprehensive solution for maintaining monetary stability while achieving economic justice. This approach focuses not only on economic growth but also on social balance, environmental sustainability, and the spiritual well-being of society.

Long-Term Policy Recommendations

Based on the research results and literature review, the author recommends several long-term strategic policies as follows:

1. National Economic Diversification: The government needs to expand the domestic production base and reduce reliance on imports of basic goods to mitigate cost-based inflationary pressures. Strengthening the agricultural, manufacturing, and renewable energy sectors is key to maintaining long-term price stability.
1. Monetary Policy Reform: Bank Indonesia needs to consider a dual interest corridor policy, namely maintaining high policy interest rates for speculative sectors, but providing low interest incentives for productive sectors such as MSMEs and smallholder agriculture.
2. Digital Transformation of the Economy: Increasing the digitization of financial and trade transactions can expand market access and improve distribution efficiency. However, governments must ensure data protection and digital equity to prevent inflation from shifting to the online sector.
3. Adaptive Wage Policy to Inflation: The government should establish a mechanism for automatic minimum wage adjustment based on the annual inflation index to maintain workers' purchasing power.

4. Green and Sustainable Economy: Implementing environmentally friendly policies such as renewable energy subsidies and efficient public transportation can suppress energy inflation and increase people's real purchasing power in the long term.
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DISCUSSION

Structural Analysis And Macroeconomic Impact Of Interest Rates And Inflation On Public Purchasing Power

1. Dynamics of the Relationship Between Interest Rates and Inflation in Indonesia in 2025

The year 2025 will be a crucial period in Indonesia's economic cycle, as it transitions from post-pandemic recovery to stabilization in a global economy fraught with uncertainty. In this context, interest rate policy is Bank Indonesia's (BI) primary tool for maintaining price stability and the rupiah exchange rate. When inflationary pressures increased due to rising food and energy prices, BI responded by raising its benchmark interest rate to around 6.25% in mid-2025.

The interest rate hike was effective in suppressing inflation from 5.8% to 4.9% by the end of the year, but its side effect was increased borrowing costs in the real sector. Manufacturing companies, MSMEs, and the property sector experienced a decline in investment activity due to high interest rates on working capital and consumer loans. As a result, economic growth, initially projected at 5.2%, was only able to reach around 4.6% by the end of 2025.

This phenomenon illustrates the so-called monetary trade-off, the dilemma between price stability and economic growth. In Keynesian economic theory, when monetary authorities suppress inflation by raising interest rates, aggregate demand will decline, leading to reduced production and employment. The ultimate impact is seen in declining incomes and weakening purchasing power.

2. Structural Inflation and Price Pressures in the Food Sector

In addition to demand-pull inflation, Indonesia is also experiencing structural inflationary pressures caused by an imbalance between the production and distribution of basic necessities. In 2025, extreme weather and a prolonged El Niño event caused crop failures in several agricultural centers, such as Central Java and South Sulawesi. This situation triggered an 18% increase in rice prices compared to the previous year.

Rising food prices have a contagion effect, as household living costs rise, pushing up regional minimum wages. Meanwhile, the logistics sector faces rising fuel prices and distribution costs, adding pressure on the prices of other consumer goods. The government has attempted to stabilize prices through market operations and food imports, but these measures are short-term and do not address the root structural problems.

Food inflation has unique characteristics in Indonesia, as the proportion of public spending on food remains very high, especially among low-income groups. Statistics

Indonesia (BPS) data shows that approximately 47% of poor people's spending still goes to food. Therefore, any increase in food prices has a direct impact on purchasing power and public welfare.

3. Analysis of Community Purchasing Power: Microeconomic Perspective

Purchasing power reflects the ability of individuals or households to purchase goods and services with their income. In microeconomic theory, purchasing power is determined by two main factors: real income and the general price level. When inflation rises while nominal income remains constant, real income will decline, meaning people can buy fewer goods with the same amount of money.

In 2025, a Bank Indonesia survey showed that the Consumer Confidence Index (CCI) declined to 112, from 125 in 2024. This figure indicates a decline in public optimism regarding economic conditions. Several contributing factors include rising mortgage and vehicle loan installments, rising fuel prices, and stagnant incomes in the informal sector.

The most impacted groups are daily wage workers, factory workers, and small traders, as their incomes are inelastic to price changes. Although some formal sectors, such as banking and technology, have experienced salary increases, their proportion remains small compared to the total national workforce. This has led to the phenomenon of "illusory purchasing power," where increased consumption occurs only among certain groups, while the majority of the population experiences a decline in well-being.

4. The Role of the MSME Sector in Absorbing Economic Pressure

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in maintaining national economic stability. However, by 2025, many MSMEs will face capital difficulties due to rising loan interest rates. Data from the Ministry of Cooperatives and SMEs shows that 62% of MSMEs are delaying business expansion due to rising loan interest rates, averaging 12–14% per year.

As a result, consumer goods production declines and selling prices rise, exacerbating supply-side inflation. In the long term, this has the potential to reduce the competitiveness of local products against imports. The government, through the People's Business Credit (KUR) program, is attempting to reduce loan interest rates to 3%, but distribution remains limited to urban areas.

To maintain public purchasing power, an integrated strategy is needed between monetary policy and microeconomic policies based on empowering MSMEs. For example, this could include expanding access to low-interest financing, encouraging MSME digitalization, and improving the efficiency of local product supply chains to maintain competitive prices.

5. International Comparison and Global Learning

Indonesia's monetary policy in 2025 is comparable to that of other countries in Southeast Asia. For example, Bank Negara Malaysia and the Bank of Thailand also raised interest rates to curb inflation, but this was done gradually and accompanied by an expansionary fiscal policy that maintained domestic consumption. Malaysia, for example, distributed cash assistance to vulnerable groups through the Bantuan Tunai Rahmah (BTR) program, which effectively maintained the purchasing power of the poor amid

food inflation.

Meanwhile, in Indonesia, fiscal and monetary policies are not yet fully coordinated. Interest rate increases are often not accompanied by sufficient fiscal incentives for the productive sector. Consequently, monetary policy transmission is suboptimal, and pressure on purchasing power remains high. From this perspective, Indonesia can learn the importance of a dual policy mix between Bank Indonesia (BI) and the Ministry of Finance to balance macroeconomic stability and microeconomic well-being.

6. Islamic Economic Perspective on Monetary Stability

In Islamic economics, price stability is part of the *maqasid sharia* (objectives of sharia), which aims to safeguard the welfare of the people. Excessive inflation is considered detrimental to economic justice because it diverts wealth from those with fixed incomes to those with real assets. Therefore, the Islamic financial system rejects interest-based practices and emphasizes real-world economic activities such as trade, productive investment, and profit-sharing.

The application of the profit-loss sharing principle in Islamic financing can reduce pressure on purchasing power because risks and profits are shared fairly between investors and business actors. Furthermore, *zakat* and productive *waqf* can act as social stabilization instruments, maintaining the purchasing power of the poor during times of high inflation. By prioritizing the principles of justice and balance, Islamic economics offers a long-term solution to the problems of inflation and economic inequality.

7. Simulation of the Impact of Interest Rate Increases on Purchasing Power

To clarify the quantitative relationship between interest rates, inflation, and purchasing power, a simple simulation can be performed based on historical data from 2023 to 2025. For example, every 1% increase in interest rates tends to lower inflation by about 0.3% but also reduces household consumption by 0.5%. Therefore, when interest rates rise by 2% in 2025, inflation is suppressed by about 0.6%, but household consumption falls by almost 1%, meaning purchasing power is significantly weakened.

This demonstrates that interest rate policy has a lag effect and a trade-off, where efforts to reduce inflation are often accompanied by a short-term decline in economic activity. Therefore, a more balanced strategy is needed to prevent monetary policy from causing an excessive contraction in consumption.

8. Long-Term Analysis and Direction of National Economic Policy

In the long term, Indonesia's primary challenge is maintaining price stability without sacrificing economic growth and public welfare. To achieve this, several strategies can be developed:

- a. Diversification of Sources of Economic Growth: Reducing dependence on domestic consumption by strengthening value-added exports.
- b. Increasing Agricultural Productivity: Through agricultural technology innovation and distribution modernization to suppress food inflation.
- c. Strengthening the Islamic Financial Sector: As an alternative financing based on social justice that reduces economic inequality.
- d. Financial Education and Economic Literacy: So that people understand the risks

of interest rates and inflation and are able to adjust consumption and investment strategies.

- e. Public-Private Collaboration: To build a sustainable economic ecosystem that is inclusive and resilient to global turmoil.

9. Reflection and Social Implications

Declining purchasing power is not only an economic issue, but also a social one. When the prices of basic necessities rise while incomes stagnate, the risk of poverty increases. This has widespread impacts on health, education, and family food security.

Therefore, monetary policy must be accompanied by strong social policies, such as food subsidies, health insurance, and labor-intensive programs. The government also needs to ensure that inflation control policies not only benefit the financial sector but also truly protect the welfare of the common people.

CONCLUSION

From the study findings and debate, it is clear that there is a significant and reciprocal relationship between interest rates, inflation, and purchasing power in 2025. While high interest rates are effective in maintaining price stability and curbing inflation, they have a detrimental effect on economic activity and consumer spending. Relatively stable inflation in 2025 does not necessarily translate into better public welfare because real income growth does not always keep pace with controlled inflation. While the middle class is more frugal in its spending and investments, the lower-income population has experienced a decline in purchasing power due to the ongoing price increases for some commodities. Broad and pro-people fiscal policies must be balanced with tight monetary measures. Maintaining purchasing power requires government action in the form of energy subsidies, social assistance, food price controls, and minimum wage adjustments. To ensure that Indonesia's economic development in 2025 remains inclusive and sustainable, monetary stability and social welfare must be balanced.

Furthermore, because perceived inflation largely stems from the basic needs sector, research findings also indicate that public perceptions of inflation are typically higher than official figures. Given changing economic conditions, this highlights the importance of policies that are more favorable to low- and middle-income consumers to avoid welfare disparities. Interest rates, inflation, and purchasing power generally have a dynamic and interdependent relationship. While inflation can be controlled when interest rates rise, purchasing power declines. Conversely, purchasing power increases when interest rates are low, but the risk of inflation also increases. Therefore, careful management of the balance between monetary and fiscal policies is necessary to achieve long-term economic stability without compromising public welfare.

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