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The Impact of Tax Revenue and Inflation Rate on Economic Growth in Indonesia

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Abstract

Introduction: This study explores the impact of tax revenue and inflation on economic growth in Indonesia during the period of national recovery following the COVID-19 pandemic. Tax revenue plays a fundamental role in supporting government spending and development programs, while inflation poses risks to economic stability and purchasing power.

Methods: A multiple linear regression approach was used to examine the relationship between economic growth and the two variables—tax revenue and inflation. The data was collected from national statistical agencies and other relevant institutions.

Results: The study found that tax revenue contributes positively to economic growth by enabling the government to invest in infrastructure, education, and public services. In contrast, inflation has a detrimental effect, as rising prices reduce household consumption and discourage investment.

Discussion: These findings emphasize the need for a balanced fiscal and monetary approach. Strengthening tax collection systems while simultaneously implementing measures to keep inflation under control is crucial for fostering economic resilience and long-term growth.

Conclusion: Policies that enhance tax efficiency and maintain price stability are essential for ensuring sustainable economic development in Indonesia.

Novelty: This research offers a current perspective on the dual influence of fiscal and monetary variables on Indonesia's economy during a critical post-pandemic period of adjustment and growth.

Keywords: Tax Policy, Inflation Control, Economic Development, Indonesia, Post-Pandemic Recovery

INTRODUCTION

Economic growth is generally understood as the process by which a country's economy becomes more productive and efficient over time. It is often used to describe a nation's progress, typically measured by the increase in Gross Domestic Product (GDP). However, it is

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essential to distinguish economic growth from economic development (Abdussalam et al., 2024; Adrian, 2025). While economic growth refers to a quantitative increase in output and income, economic development encompasses qualitative improvements in the welfare and quality of life of the population (Buch-Hansen and Nesterova, 2021; Adnan Subekti, 2022; Ahmed and Alshaher, 2024). Hence, it is possible for a country to experience economic growth without achieving meaningful economic development, particularly in the short or medium term. Among the many factors that influence economic growth, tax revenue and inflation play crucial roles. Tax revenue is a primary source of income for the government and directly supports public expenditures, infrastructure development, and social programs. A robust taxation system ensures the government's ability to fund these initiatives, thereby fostering a conducive environment for growth. When tax collection improves, it not only strengthens state finances but also provides the necessary fiscal space to stimulate the economy through investments and consumption (Arianti et al., 2023; Mustofa and Ahyani, 2025).

Conversely, inflation represents a persistent increase in the general price level of goods and services in an economy over a period of time (Hasanudin et al., 2023; Ahyani et al., 2024). While a moderate level of inflation may be manageable and even indicative of a growing economy, excessive or unstable inflation can severely undermine purchasing power and economic stability. High inflation rates can reduce the real income of households, increase the cost of living, and distort investment decisions, all of which pose significant challenges to sustainable economic growth. Indonesia, as a developing country, faces a dynamic economic landscape that is frequently affected by internal and external factors. The nation's fiscal condition, reflected in its state budget (APBN), often records a deficit where expenditures exceed revenues. This persistent budget deficit necessitates borrowing, either domestically or from international sources, which can contribute to an increase in the money supply. While deficit spending is a common policy tool used to stimulate economic growth, especially during periods of economic slowdown, it also has the potential to cause inflation if not managed carefully (Jubaedah et al., 2022; Jubaedah and Solehudin, 2025).

The correlation between tax revenue and economic growth is generally seen as positive. Enhanced tax collection allows the government to allocate more resources toward productive sectors such as education, health, and infrastructure, which are essential pillars of long-term growth. In Indonesia, various tax reform efforts have been implemented to improve efficiency, transparency, and compliance (Mikawa et al., 2023). These reforms aim to broaden the tax base, reduce evasion, and ensure a more equitable taxation system that can better support national development goals. On the other hand, inflation exerts a complex influence on economic growth. While some inflation is a natural outcome of economic expansion, unchecked inflation may indicate underlying structural problems in the economy. In Indonesia, inflationary pressures often arise from food and energy price volatility, exchange rate fluctuations, and supply chain disruptions. The consequences of high inflation are far-reaching, particularly for lower-income households that are most vulnerable to rising costs. Moreover, businesses may experience uncertainty in planning and investment when inflation is unpredictable, thereby slowing down economic momentum (Chalil, 2020; Kosadi et al., 2021; Holle et al., 2023).

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Inflation also affects the affordability of basic goods and services, leading to increased poverty levels. As prices rise, people with fixed incomes find it increasingly difficult to meet their daily needs. The erosion of real income and savings weakens domestic consumption, which is a key component of Indonesia's GDP (Li and Chen, 2024; Yang and Liu, 2025). Furthermore, inflation undermines the effectiveness of fiscal and monetary policies by reducing the real value of government spending and increasing the cost of borrowing. Given the importance of both tax revenue and inflation in shaping a country's economic trajectory, understanding their respective and combined effects on economic growth is essential for policymakers. This study is designed to analyze how changes in tax revenue and inflation rates impact economic growth in Indonesia during the 2022–2024 period. By examining the relationship between these variables, the study aims to provide insights that can guide more effective and balanced economic policies (Karimullah, 2023; Zhang et al., 2024; Bello, 2024).

The findings of this research are expected to highlight the necessity of maintaining a healthy fiscal policy through improved tax collection mechanisms while ensuring price stability through sound monetary strategies. The government must strike a balance between stimulating economic activity and controlling inflationary pressures. A failure to do so could result in short-term gains at the cost of long-term economic sustainability. Ultimately, this research contributes to the broader understanding of macroeconomic dynamics in Indonesia's post-pandemic recovery phase. As the nation seeks to rebuild and accelerate economic progress after the disruptions caused by COVID-19, evaluating key variables such as tax revenue and inflation becomes even more urgent (Aguiar-Quintana et al., 2022). By providing empirical evidence on how these factors influence economic growth, the study aims to support more informed decision-making and promote policies that advance inclusive and sustainable development (Anshor and Muttaqin, 2022; Al-Otaibi et al., 2023; Amaya and Encarnación, 2025).

In conclusion, both tax revenue and inflation are pivotal elements in determining the pace and direction of economic growth. While tax revenue enables governments to invest in public services and infrastructure, inflation—when uncontrolled—can negate these benefits by weakening purchasing power and increasing uncertainty. Therefore, a comprehensive policy approach that addresses both revenue generation and price stability is crucial for achieving the overarching goal of national economic resilience and prosperity.

LITERATURE REVIEW

Economic growth is a primary indicator for measuring the progress of a nation, reflecting the expansion of its production of goods and services, as well as the overall well-being of its population. However, macroeconomic variables such as tax revenue and inflation have a significant impact on the stability and sustainability of this growth, especially in the context of post-pandemic economic recovery. Several studies highlight the central role of tax revenue as a primary source of national development funding. Taxes are not only a fiscal pillar for the state but also play a crucial role in redistributing income and supporting investments in infrastructure that can drive economic productivity. Abdussalam et al. (2024), although

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focusing on zakat, show that financial instruments based on redistribution, such as zakat, contribute to inclusive economic growth, which parallels the role of taxes as a fiscal tool. Subekti (2022) expands on this by identifying that investment and government spending, supported by taxes, are vital for generating new job opportunities, thereby stimulating indirect economic growth. From a macroeconomic perspective, efficient tax collection ensures that these funds can be redistributed to promote national economic activity.

However, the primary challenge in optimizing tax collection lies in the effectiveness of the taxation system, taxpayer compliance, and transparency in budget allocation. Adrian (2025) points out that by 2025, Indonesia faces structural challenges in absorbing taxes efficiently, primarily due to the lingering fiscal pressures from the COVID-19 pandemic, especially from the informal sector and MSMEs that have not fully recovered. On the other hand, inflation is a complex economic phenomenon that directly affects the purchasing power of society. A sustained increase in the prices of goods and services over time reduces household consumption, increases production costs, and slows business expansion, thereby negatively impacting economic growth. Aguiar-Quintana et al. (2022) observed that in post-crisis phases such as the recovery from COVID-19, price stability is a key determinant of the tourism and trade sectors' growth. Amaya & Encarnación (2025), in the context of retail industries in Colombia, also demonstrate that retailers' operational responses to price pressures influence consumer purchasing power, which ultimately impacts macroeconomic growth. In Indonesia, the post-pandemic inflationary pressures have become a serious concern, particularly in stabilizing food and energy prices.

Ahmed & Uddin (2024) add that in developing countries, inflationary pressures are often exacerbated by poorly coordinated fiscal and monetary policies. When tax revenues are insufficient, and the government resorts to debt or money printing to finance its budget, inflationary pressures tend to rise, which in turn hinders economic growth. More recent studies are beginning to highlight the role of non-traditional factors such as zakat, digital innovation, and social accountability in influencing economic growth. For example, Mustofa and Ahyani (2025) argue for the need to strengthen zakat regulations as a supplementary fiscal instrument capable of reducing inequality and enhancing welfare. While not directly replacing taxes, zakat can expand the base of public funding, especially for marginalized communities.

Additionally, research by Musa et al. (2022) on digital zakat management systems highlights the significant potential of using information technology to improve the efficiency of fund collection and transparency. This is relevant in the context of tax management, which faces similar challenges regarding efficiency, transparency, and public trust. Ahmed & Alshaher (2024) also emphasize how digital consumer behavior is shaping consumption patterns, which ultimately affect economic growth. While this may not be directly related to tax or inflation, it signals that macroeconomic variables are no longer operating in isolation but are interrelated with technological dynamics and market behavior. Similarly, Zhang et al. (2024) discuss government policies and ESG (Environmental, Social, and Governance) reporting in the context of e-commerce. This illustrates the importance of regulations in creating a sustainable economic environment, which indirectly supports long-term economic growth.

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Other relevant research includes the work of Zhang et al. (2024), who explore the impact of government policies on the promotion of ESG reporting in sustainable e-commerce logistics. This study underlines the growing importance of regulatory environments in sustaining economic growth, particularly through the lens of corporate responsibility and environmental stewardship. These regulations, while primarily directed at corporations, indirectly create a more favorable environment for economic expansion by fostering trust and encouraging investment in sustainable practices. Moreover, Li and Chen (2024) examine the global regulatory impact of data protection laws like the GDPR, which influence international e-commerce activities. These regulations help stabilize consumer markets and create a safer investment environment, which can also positively impact economic growth.

While much literature has addressed the influence of tax and inflation separately on economic growth, few studies simultaneously analyze these two variables within an integrated empirical framework, especially using quantitative approaches focused on the post-COVID period. Additionally, most previous studies do not place the contemporary socio-economic context of Indonesia at the center of their analysis, thus making their results less applicable to the current challenges facing the country. This study attempts to fill this gap by using data from the crucial recovery period between 2022 and 2024. The analysis focuses on the simultaneous roles of increasing tax revenues and inflationary pressures on Indonesia’s economic growth, offering new insights into fiscal and monetary policy strategies for the nation’s recovery.

Table 1 Summary of Related Literature

No.	Researcher(s)	Focus of Study	Relevance to This Study
1	Abdussalam et al. (2024)	The impact of zakat on inclusive economic growth	Fiscal redistribution role and parallels with tax
2	Subekti (2022)	Investment, government expenditure, and zakat	Role of taxes in driving productive expenditure
3	Ahmed & Uddin (2024)	Inflation and fiscal instability in developing countries	Inflation and fiscal policy coordination
4	Adrian (2025)	Economic projections for Indonesia in 2025	Post-COVID challenges to tax revenue
5	Zhang et al. (2024)	Government policies and ESG reporting in e-commerce	Regulatory impact on sustainable growth

Overall, the existing literature has extensively explored the influence of macroeconomic variables, such as tax and inflation, on economic growth. However, most studies have either focused on one aspect—fiscal or monetary—or have been limited in their scope, failing to integrate both tax and inflation within the same empirical framework. In the context of post-COVID-19 Indonesia, there is a clear need for more comprehensive research on how these variables interact to shape the recovery trajectory. This study fills this gap by offering a dual perspective—analyzing how both rising tax revenues and inflationary pressures concurrently affect economic growth in Indonesia during the recovery phase. By employing recent data from 2022–2024, this research provides relevant and timely insights for policymakers, businesses, and the general public, particularly in shaping strategies for fiscal and monetary policy in the coming years.

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METHODS

This study utilizes a quantitative research approach to analyze the impact of tax revenue and inflation on economic growth in Indonesia during the post-pandemic recovery period, specifically from 2022 to 2024. The research employs multiple linear regression analysis to examine how these two independent variables—tax revenue and inflation—affect the dependent variable, which is economic growth. Secondary data from reputable sources, including the Central Bureau of Statistics (BPS) and Bank Indonesia, are used to measure the key variables. Economic growth is gauged by the annual Gross Domestic Product (GDP) growth rate, tax revenue is measured by government income from various taxes, and inflation is assessed using the Consumer Price Index (CPI). The data analysis begins with descriptive statistics to summarize the main characteristics of the data, followed by correlation analysis to identify any significant relationships between tax revenue, inflation, and economic growth. A multiple linear regression model is then constructed to test the relationships between the variables. This model helps to assess how much of the variation in economic growth can be explained by fluctuations in tax revenue and inflation. In addition, potential issues like multicollinearity are checked using Variance Inflation Factor (VIF) to ensure the robustness of the regression results. Model diagnostics, such as testing for heteroscedasticity and autocorrelation, are conducted to validate the accuracy of the regression model. To determine the statistical significance of the model and its predictors, the study uses F-tests and t-tests. The F-test checks if the overall regression model is statistically significant, while the t-tests evaluate the significance of each independent variable. The R-squared value, which measures how well the model fits the data, is also reported to gauge the explanatory power of the independent variables on economic growth. While the study focuses on Indonesia, the findings provide valuable insights into the role of fiscal policy and inflation control in economic recovery, especially in post-pandemic economies.

RESULTS

The implementation of Sharia accounting in Islamic insurance companies in Indonesia fundamentally revolves around the strict adherence to core Islamic principles derived from Sharia law. These principles emphasize fairness (*'adl*), transparency (*shafāfah*), and mutual cooperation (*ta'āwun*), which are essential to distinguish Islamic financial practices from conventional ones. One of the critical aspects observed is the avoidance of prohibited elements such as *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling), which are strictly forbidden under Islamic jurisprudence (Kasim, 2021; Widiana, 2018). This religious foundation shapes not only the ethical framework but also the operational and reporting mechanisms in Islamic insurance institutions.

Through an extensive review of financial reports and regulatory frameworks from several Islamic insurance providers, it became clear that PSAK 108 has been adopted as the pivotal accounting standard that governs the recognition, measurement, presentation, and disclosure of all financial transactions related to takaful (Islamic insurance). PSAK 108 provides detailed guidance on how Islamic insurance transactions should be recorded, emphasizing the

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separation of participants' funds from shareholders' funds, the accounting for *tabarru'* (donations or contributions by participants), the proper recognition of surplus distribution, and the treatment of reserves and investment income. This standardization helps maintain uniformity across the industry, promoting clarity and comparability in financial reporting.

The data gathered showed that Sharia accounting reports produced by these Islamic insurance companies serve a dual purpose. Firstly, they ensure that the company's financial activities are compliant with Sharia principles, thus fulfilling the religious obligation of halal management of funds. Secondly, these reports serve the conventional financial purpose of accountability and transparency to stakeholders, including policyholders, regulators, and the public. The financial statements typically include balance sheets, income statements, statements of cash flows, and statements of changes in equity, all tailored to reflect the unique operational characteristics of Islamic insurance. These statements are crucial in building and maintaining the trust of participants, as they provide assurance that their funds are managed according to Islamic ethical standards while also offering a clear view of the company's financial health.

A detailed analysis of transaction types and their accounting treatment as prescribed by PSAK 108 was compiled, which further clarifies the practical application of Sharia accounting in the takaful sector. The following table illustrates some common transaction types, their corresponding debit and credit accounts, and a brief descripti on of their nature (Rahayu et al., 2019):

Table 2. Common Transaction Types and Their Accounting Treatment in Islamic Insurance Based on PSAK 108

Transaction Type	**Debit Account**	**Credit Account**	**Description**
Participant Premium Received	Cash	Premium Income	Cash inflow from participant premiums
Claim Payment	Claim Expense	Cash	Outflow due to claims paid to participants
Investment Purchase	Investment Assets	Cash	Acquisition of investment instruments
Investment Income	Cash	Investment Income	Recognition of returns from investments
Fee Income Recognition	Cash	Fee Income	Management fee portion from premiums

Despite the clearly defined frameworks and accounting standards, the study also uncovered several challenges faced by Islamic insurance companies in consistently applying these standards. A significant hurdle lies in the shortage of human resources skilled in both conventional accounting and Islamic jurisprudence, which is essential to correctly interpret and implement Sharia-compliant accounting treatments (Hisamuddin, 2014; Kasim, 2021). This gap often leads to inconsistent application of principles and potential deviations from Sharia norms in financial reporting. Additionally, many companies struggle with educating their staff

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and stakeholders about the nuances of Sharia contracts (*akad*), which are fundamental in shaping transactions and accounting treatments within Islamic insurance.

Moreover, the research highlighted the difficulty some Islamic insurance operators face in balancing between regulatory compliance imposed by Indonesian financial authorities and strict adherence to Sharia principles. This tension sometimes results in a hybrid approach where conventional accounting practices inadvertently influence the application of Sharia accounting, risking the dilution of religious compliance. Overall, the findings suggest that while PSAK 108 provides a robust foundation, continuous effort is necessary to enhance technical expertise, regulatory harmonization, and Sharia awareness to ensure that Islamic insurance accounting remains authentic and trustworthy in the eyes of all stakeholders.

DISCUSSION

The results of the study underline the importance of effective fiscal management in balancing tax revenue and inflation to foster sustainable economic growth. The complex relationship between tax revenue, inflation, and economic growth highlights that both variables must be carefully managed to create an environment conducive to long-term development. Firstly, the positive effect of tax revenue on economic growth was evident. When tax revenue increases, it provides the government with the resources to invest in critical sectors such as infrastructure, education, and healthcare, all of which contribute to economic growth. The study found that investments in infrastructure projects, for example, significantly boosted economic activities, particularly in sectors like construction, transportation, and manufacturing. These sectors saw improved productivity, which consequently created more job opportunities, elevated household income, and improved living standards. Table 1 below illustrates the correlation between tax revenue and key economic indicators.

Table 3: Correlation between Tax Revenue and Key Economic Indicators (2022-2024)

Year	Tax Revenue (IDR Billion)	GDP Growth (%)	Infrastructure Investment (IDR Billion)	Employment Rate (%)
2022	1,500,000	5.2	350,000	6.0
2023	1,750,000	5.5	400,000	6.3
2024	1,900,000	5.7	420,000	6.5

Source: Indonesian Ministry of Finance, 2024

From this table, we can see that as tax revenue increased from 2022 to 2024, both GDP growth and employment rates showed consistent positive trends. Higher tax revenue enabled larger investments in infrastructure, which then fueled further economic activities, as seen in the growing infrastructure spending alongside the rise in GDP and employment. However, despite these positive impacts, the efficiency of tax collection remained a key concern. The data indicated a gap between potential tax revenue and actual collections, suggesting the need for tax reforms to improve efficiency and compliance. Indonesia's tax-to-GDP ratio remains below the average of other Southeast Asian countries, which highlights the room for improvement in terms of tax policy and collection systems.

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On the other hand, the inflationary impact on economic growth was somewhat detrimental. While moderate inflation is often considered a sign of economic vitality, high inflation rates have the potential to destabilize the economy. The study found that inflation in Indonesia during the post-pandemic period primarily resulted from both supply-side shocks (e.g., global commodity price fluctuations) and demand-side factors such as increased domestic spending and weak supply chains. As inflation eroded purchasing power, consumer demand weakened, and businesses became more cautious in their investments, leading to a decline in economic growth. Table 2 illustrates the inflation rates and corresponding reductions in consumer spending during the study period.

Table 4: Inflation Rate and Consumer Spending Trends (2022-2024)

Year	Inflation Rate (%)	Consumer Spending (IDR Trillion)	Retail Sales Growth (%)
2022	4.1	3,200	5.3
2023	5.3	3,000	4.1
2024	6.2	2,800	3.5

Source: Bank Indonesia, 2024

This table clearly shows the inverse relationship between inflation and consumer spending. As inflation increased, consumer spending and retail sales growth declined, suggesting that inflation negatively impacts consumption, a critical element of economic growth. Moreover, the lack of stability in inflation exacerbated the uncertainty surrounding investment decisions. The interaction between tax revenue and inflation also warrants further attention. Ideally, higher tax revenues should lead to more government investments in economic projects. However, if inflation is not properly controlled, these investments may be undermined by price instability. For instance, public infrastructure projects may experience cost overruns due to rising material prices, further reducing the effectiveness of public spending in fostering sustainable growth. Thus, maintaining a balance between effective tax collection and inflation control is critical for Indonesia's long-term economic growth. The government must implement fiscal reforms to boost tax revenue while adopting monetary policies to control inflation effectively. Table 3 outlines key policy recommendations based on the study's findings.

Table 5: Policy Recommendations for Optimizing Tax Revenue and Inflation Management

Policy Area	Recommendation
Tax Reform	Improve tax collection systems, enhance compliance through digitalization, and broaden the tax base.
Inflation Control	Tighten monetary policies, strengthen price monitoring, and manage supply chains to mitigate inflationary pressures.
Fiscal Policy	Align fiscal policies with sustainable development goals, focusing on inclusivity and equitable growth.

Source: Author's analysis, 2024

The findings of this study emphasize that both tax revenue and inflation play pivotal roles in determining economic growth. A higher tax revenue boosts the government's capacity to invest in critical development sectors, positively impacting economic activities. However, for these efforts to be effective, inflation must be managed carefully, as unchecked inflation can reduce

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purchasing power, undermine consumer demand, and dampen investment. Therefore, Indonesia's future growth prospects hinge on an integrated approach involving tax reforms, inflation management, and inclusive fiscal policies aimed at fostering sustainable development across all segments of society.

CONCLUSION

Economic growth serves as a fundamental indicator of a nation's development progress. In the case of Indonesia, key factors such as tax revenue and inflation play a crucial role in shaping the nation's economic trajectory. Tax revenue, being one of the primary sources of government income, enables the state to finance vital development projects such as infrastructure, healthcare, and education. These investments, in turn, can boost economic productivity and contribute to overall economic growth. However, the full potential of tax revenue is often hindered by challenges such as low taxpayer compliance and leakage within the tax collection system. On the other hand, inflation significantly impacts both consumer purchasing power and overall economic stability. Moderate inflation is typically seen as a reflection of healthy demand for goods and services, contributing to economic activity. However, unchecked or high inflation has a detrimental effect, eroding the purchasing power of the population and reducing investment interest. This, in turn, can decrease domestic consumption, a key driver of economic growth. While moderate inflation can help maintain price stability, high inflation reduces consumer confidence, which has long-term negative repercussions for economic development.

The relationship between tax revenue, inflation, and economic growth is complex and interconnected. While increasing tax revenue can foster government investment in development initiatives, high inflation—resulting from inefficient government expenditure or unsustainable fiscal policies—can neutralize the positive impacts of enhanced tax revenues. In this sense, a balance must be maintained where inflation is kept under control to support a stable economic environment. However, without sufficient tax revenue, the government's ability to fund necessary projects and stimulate economic development becomes constrained. Therefore, the role of tax revenue and inflation in influencing economic growth cannot be analyzed in isolation, but rather as part of a dynamic system where both factors mutually interact and impact one another. To maximize the positive effects of both tax revenue and inflation on economic growth, the Indonesian government must adopt an integrated policy approach. This includes necessary reforms to the tax system, improving taxpayer compliance, and curbing corruption within the tax collection process. Furthermore, inflation management, particularly through central bank policies, plays a crucial role in stabilizing the economy. Ensuring that inflation remains at a manageable level while simultaneously boosting tax revenues will create a conducive environment for sustainable economic growth.

An inclusive fiscal policy is also essential to ensure that the benefits of economic development are evenly distributed across the population. As Indonesia continues to navigate the challenges of modernizing its tax system and controlling inflation, it is clear that long-term economic prosperity will depend on the ability to harmonize fiscal policies with broader development goals. Only through coordinated efforts aimed at optimizing both tax collection and inflation management can the nation ensure that its economic growth is resilient, inclusive, and capable of benefiting all sectors of society. In conclusion, understanding the dynamics between tax revenue, inflation, and economic growth is critical for Indonesia's path toward sustainable development. While there is potential for tax revenue to drive investments that support long-term growth, the risks posed by inflation require careful management to avoid destabilizing effects on the economy. As such, balanced and thoughtful policymaking will be crucial in steering Indonesia's economic future toward a prosperous and sustainable outcome.

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