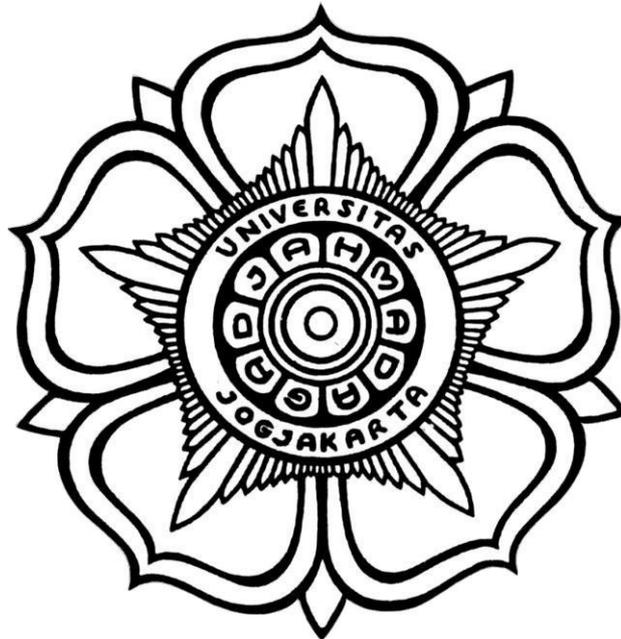


NASKAH PUBLIKASI
HIBAH PENELITIAN DOSEN SEKOLAH PASCASARJANA UGM TAHUN 2018

RAMADHAN, EID UL FITR, AND INFLATION: LESSONS FROM
INDONESIAN SUBNATIONAL DATA



OLEH:
SAMSUBAR SALEH
DYAH TITIS KUSUMA WARDANI
MADHA ADI IVANTRI

PROGRAM STUDI AGAMA DAN LINTAS BUDAYA SEKOLAH
PASCASARJANA UNIVERSITAS GADJAH MADA

TABLE OF CONTENT

COVER.....	i
TABLE OF CONTENT.....	ii
1. INTRODUCTION	1
2. RESEARCH METHOD	1
3. RESULTS AND DISCUSSION	3
3.1 Basic Result for the Relationship of Ramadhan and Eid Ul Fitr on Inflation	4
3.2 Result for The Relationship Ramadhan and Eid Ul Fitr dummies elaborated on.....	5
Inflation	
4. CONCLUSION.....	7
REFERENCES.....	8
LIST OF TABLES	
Table 1 Ramadhan, Eid Ul Fitr, and Inflation: The Basic Results using PLS	4
Table 2 Ramadhan, Eid Ul Fitr, and Inflation: Re-estimated using Fixed Effect Model.....	5
Table 3 The Results with Ramadhan and Eid Ul Fitr dummies elaborated	6
APPENDIX	
Appendix A. Details on the Variable Definitions and Sources	
Appendix B. The Results with Ramadhan and Eid Ul Fitr dummies elaborated	
Appendix C. The Results with Ramadhan and Eid Ul Fitr dummies elaborated	

Ramadhan, Eid Ul Fitr, and Inflation: Lessons from Indonesian Subnational Data

Samsubar Saleh¹⁾, Diyah Titis Kusuma Wardani²⁾, Madha Adi Ivantri^{3*)}

^{1, 3)} The Graduate School of Universitas Gadjah Mada

²⁾ Faculty of Economics and Business

^{*)} Corresponding Author: madha.adi.i@365.ugm.ac.id

Abstract

Inflation has always been being seen as one of the most important macroeconomic variables in modern economies. Every year, media especially in Muslim countries has constantly reported that inflation rates increase during the Islamic holy month of Ramadhan and Eid Ul Fitr. Remarkably, there has been hitherto almost no serious study focusing on the empirical relationship between Ramadhan, Eid Ul Fitr and inflation. This research aims to examine empirically whether Ramadhan and Eid Ul Fitr have a systematic effect on inflation. This research uses regression analysis technique and involves data from 66 local economies in Indonesia between January 2000 and December 2017. The finding of this paper is Ramadhan and Eid Ul Fitr have a positive effect on inflation. The possible reasons for explaining the results is the high of public demand. To overcome inflation in Indonesia not only from the role of government in controlling inflation rate, but also the role of Muslims community in controlling consumption.

Keywords: Ramadhan; Eid Ul Fitr; Inflation; Indonesia; Local Economies

1. INTRODUCTION

Inflation has always been being seen as one of the most important macroeconomic variables in modern economies. It is this variable that will possibly weaken or even damage decades of economic growth if unleashed and not curbed (Barro, 1995; Gregorio, 1992). It is this variable that is concerned by central bankers globally and forces them to take monetary policies that are not always popular.

Every year, media especially in Muslim countries has constantly reported that inflation rates increase during the Islamic holy month of Ramadhan and Eid Ul Fitr. Many reports have also acknowledged the persistent increase of inflation rate in the months within which Ramadhan and Eid Ul Fitr fall (FAO, 2010; The World Bank, 2013). Given that Ramadhan and Eid Ul Fitr fall in different month in different years, they cannot simply be treated as seasonal adjustment measure like Christmas or Solar New Year. Understanding the effect that Ramadhan and Eid Ul Fitr may possibly have on inflation is therefore very important, not only for the making of appropriate monetary policies but also the making of business decisions.

Economic analyses on inflation are hardly new (Laidler & Parkin, 1975). There have been a bulk of works examining the cause and consequences on inflation using both theoretical (Saad-Filho 2000; Fuhrer, Kodrzycki, Little, Olivei, & Samuelson, 2009) and empirical approaches (Gali & Gertler, 1999; Orphanides, 2002). However, the dependence of inflation on Ramadhan and Eid Ul Fitr seems to be missed.

There are at least two mechanisms through which Ramadhan and Eid Ul Fitr may affect inflation. The first is changes in aggregate demand. During Ramadhan, Muslims are discouraged from consumption. If Muslims do follow what Islam teaches, aggregate demand should decrease. However, Muslims behavior do not necessarily follow what Islam teaches.

Besides, Ramadhan is also the month of charity. It is in this month that the best charity is to be given, mostly to support the poor and the needy. Since the MPC is higher in the case of poor and ordinary people than it is for the extremely wealthy, the transfer of income from the wealthy to the poor may thus increases aggregate demand.

The second mechanism through which Ramadhan and Eid Ul Fitr may affect inflation is changes in the aggregate supply. During daylight hours, Muslims cannot eat nor drink. People stay up late to break their fast and get up in the early morning hours so they can eat before daybreak. This results in shorter sleeping hours which can cause people to become more lethargic later on in the day. Consequently, the productivity of workers may decline as the workers are less fit than normal. The