



Deflation and middle-class in Indonesia: An empirical analysis in January 2022-January 2025

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ABSTRACT

This study examines the relationship between deflationary trends and the contraction of the middle class in Indonesia between January 2022 to January 2025. Utilizing macroeconomic data from Bank Indonesia and the Central Statistics Agency (BPS), the research analyzes key indicators such as inflation rates, consumer price index (CPI), household consumption, and asset value fluctuations. The findings reveal that while deflation eased cost pressures in some sectors, it also led to declining business revenues, wage stagnation, and job insecurity, particularly affecting middle-income workers in retail, manufacturing, and services. The increased real burden of household debt and declining asset values further undermined middle-class financial stability. During this period, the proportion of middle-class citizens dropped to 17.13% of the population, accompanied by shrinking savings, reduced consumption, and changing spending behavior; such as a decline in car purchases and a rise in motorcycle sales. The research highlights the dual nature of deflation as both a short-term relief and a long-term economic risk, emphasizing the need for targeted policies to safeguard middle-class resilience and maintain sustainable economic growth in Indonesia.

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1. INTRODUCTION

Inflation is an economic phenomenon that not only affects macroeconomic stability but also directly influences the well-being of individuals and households. In developing countries like Indonesia, the middle class plays a crucial role in the economy, both as the primary consumer base in the domestic market and as a driver of investment and innovation (Elva Dona et al., 2022). However, rising inflation rates in recent years have raised concerns about the declining purchasing power of the middle class. While the middle class is often perceived as having more financial resilience compared to lower-income groups, persistent inflationary pressures can significantly alter their consumption patterns and, in turn, impact national economic growth (Bahri, 2023). Therefore, understanding how the middle class adapts to inflationary pressures has become an increasingly relevant issue for academic and policy discussions.

The January 2022–January 2025 inflation trend graph. From its peak in 2022 and early 2023 to lower levels in 2024 and early 2025, it exhibits a declining tendency. In September 2022, inflation peaked at 5.95%, most likely due to supply chain interruptions, post-pandemic demand spikes, or outside economic shocks. But following this peak, inflation progressively decreased in

2023, reaching 2.61% by December (Elva Dona et al., 2022). This suggests that although prices continued to rise, they did so much more slowly than they had the year before.

Inflation showed indications of stabilization in 2024 as it continued to decline. The consistent drop points to better economic conditions, which might be brought about by more sensible monetary policy, a more balanced supply and demand, or a decrease in outside pressures like falling commodity prices. Inflation peaked at 0.76% in January 2025, showing few price rises and increased consumer purchasing power (Amaly et al., 2022).

As inflation decreases, the prices of goods and services tend to rise more slowly or even stabilize. This means that with the same amount of money, people can buy more goods or services compared to periods of high inflation (Glorya, 2024). Consequently, lower inflation generally leads to an improvement in consumer purchasing power, allowing households to afford more and potentially enhancing their quality of life. According to the latest S&P Global report released on Monday, Indonesia's manufacturing Purchasing Managers' Index (PMI) dipped to a reading of 52.4 in March from 53.6 in February 2025. It is affect in the middle class in Indonesia (Kovanda & Komrska, 2017).

Despite the extensive of research on inflation and its effects on the overall economy, studies specifically examining how inflation affects the purchasing power of Indonesia's middle class remain limited. Recent findings in the field of deflation and the middle class in Indonesia highlight several key developments and challenges. Hasan & Ingle, (2023) found that the chances for young Indonesians to enter middle-class jobs remain low, with some improvement during the COVID-19 pandemic for young males. This suggests a nuanced impact of the pandemic on employment opportunities within this demographic. Similarly, Zhong, (2023) predict a significant shift in the consumption patterns of the Muslim middle class, driven by preferences for halal products and digital technology, indicating evolving market dynamics.

The relationship between post-pandemic monetary policy and middle-class consumption in Indonesia represents a nascent but insufficiently conceptualized basis for comprehensive economic research. The middle class has historically been acknowledged as a crucial catalyst for domestic demand, especially in urban areas, but the COVID-19 pandemic underscored the fragility and strategic significance of this demographic group. Indonesia's post-pandemic monetary policy, marked by interest rate reductions, liquidity enhancements, and focused credit assistance, aimed to stabilize macroeconomic indices and promote consumption among middle-income people.

This developing link is becoming significant in policy discussions, especially as the government and Bank Indonesia pursue sustainable recovery measures that diminish dependence on exports and promote domestic-led growth. Nonetheless, the theoretical foundations of this connection remain disjointed and inadequately examined within Indonesian economic literature. There is an urgent requirement for empirical research that elucidates the intricate behavioral modifications in middle-class consumption patterns following the pandemic, including alterations in saving habits, digital expenditures, housing choices, and educational investments.

Furthermore, current macroeconomic models frequently neglect the diversity within the middle class, failing to differentiate between the upper and lower middle-income portions that react differently to monetary stimuli. To position this framework as a preeminent paradigm in Indonesian economic discourse, subsequent research must amalgamate insights from behavioral economics, income distribution theory, and structural macroeconomics. This will facilitate a more thorough comprehension of the impact of monetary policy on consumption, not just in aggregate terms but also across socio-economic strata, thereby guiding the formulation of more inclusive and successful policies.

In terms of socio-political impacts, Rodriguez & Atamanov, (2021) discuss the potential rise of populism fueled by the economic and political insecurities of the Muslim middle class post-pandemic. This is compounded by long-standing socio-economic insecurities and political polarization, suggesting a complex interplay between economic conditions and political outcomes.

Environmental concerns are also prominent, with Humphrey (2012) highlighting the environmental degradation caused by the lower middle class's consumption of fast fashion. This demographic, while economically marginalized, plays a significant role in environmental issues, necessitating targeted governmental interventions to manage waste and regulate the fast fashion

industry. Furthermore, Gustafsson et al., (2020) reveal a high level of awareness regarding halal food among the lower middle class in poorer districts, influenced by factors such as religiosity and income. This indicates a strong cultural and economic influence on consumption behaviors within this segment of the population. These findings collectively illustrate the diverse challenges and developments facing the middle class in Indonesia, spanning economic opportunities, political dynamics, environmental issues, and consumer behavior.

Most previous studies have focused on the impact of inflation in relation to macroeconomic stability. The lack of research on the purchasing power dynamics of the middle class amid inflationary pressures risks leading to economic policies that are not well-targeted. Thus, this study seeks to fill the gap in the literature by providing a more focused empirical analysis of the relationship between inflation and the middle-class purchasing power in Indonesia.

This study aims to analyze the impact of inflation on the purchasing power of Indonesia's middle class using an empirical data-driven approach. Additionally, it seeks to identify the adaptation patterns of the middle class in response to inflationary pressures and offer policy recommendations for economic decision-makers. By addressing the existing research gap, this study is expected to provide new insights into the economic resilience of the middle class in the face of inflationary challenges and enrich the academic discourse on macroeconomic studies in developing countries.

In the context of academic literature, this research offers significant contributions by presenting the latest data-driven analysis on the effects of inflation on Indonesia's middle class. This study not only enhances the theoretical understanding of the relationship between inflation and purchasing power in developing economies but also provides relevant policy implications for governments and economic stakeholders. Therefore, this research is expected to serve as an essential reference in formulating more responsive and inclusive economic policies that address the challenges faced by the middle class in Indonesia.

2. RESEARCH METHOD

This study employs a library research approach with the aim of empirically analyzing the relationship between deflation and the shrinking middle class in Indonesia during the period from January 2022 to January 2025. The primary data sources consist of secondary data obtained from various official institutions, such as Statistics Indonesia (BPS), Bank Indonesia (BI), S&P Global, and reports from the Coordinating Ministry for Economic Affairs. The method of analysis focuses on Indonesia's macroeconomic indicators, with particular attention to variables that reflect the dynamics of deflation and middle-class contraction. The study utilizes descriptive and comparative analysis of historical data, trends in inflation/deflation, household consumption, income levels, and asset values. This approach enables the researcher to identify economic patterns and assess their impact on the financial and social stability of Indonesia's middle class.

The credibility and dependability of secondary data from sources such as BPS (Badan Pusat Statistik), BI (Bank Indonesia), and international organizations like the World Bank or IMF are typically regarded as high, owing to their standardized data collection methodologies, professional acumen, and institutional authority. Nonetheless, within the framework of a three-year longitudinal analysis, consistency may be influenced by alterations in data collection procedures, policy changes, or modifications in statistical definitions over time. Although these sources aim for precision and uniformity, researchers must meticulously evaluate any changes, footnotes, or metadata accompanying the datasets to guarantee consistency throughout the study duration. Consequently, while the data is predominantly reliable, meticulous examination and verification are important to sustain analytical consistency throughout the three-year period.

3. RESULTS AND DISCUSSIONS

Trends of Deflation and Deflation in Indonesia (January 2022–January 2025)

The trend of inflation and deflation in Indonesia from January 2022 to January 2025 has been influenced by various macroeconomic factors, including monetary policy, global economic conditions, and domestic economic activities (Bank Indonesia (BI), 2025). During this period, Indonesia is projected to experience moderate inflationary pressure with several fluctuations driven

by both external and internal dynamics. Key drivers shaping the country's economic growth and inflation trends include commodity price movements, adjustments in monetary policy, and developments in global trade. The following sections provide a detailed analysis of these trends (Pratomo et al., 2020).

The decline in deflation from its peak in 2022 and early 2023 to early 2025 has several significant implications for consumer purchasing power. Indonesia's middle class has declined to 17.13% of the population, or approximately 46.25 million people. This is concerning, as the middle class plays a vital role in driving national economic growth. Several indicators reflect this downward trend. The average savings of middle-class individuals fell from IDR 3.8 million in April 2018 to IDR 1.8 million in April 2024. Their contribution to GDP through consumption also dropped from 41.9% in 2018 to 36.8% in 2023. Furthermore, the proportion of spending allocated to food increased from 36.6% in 2014 to 41.3% in 2023, a shift largely influenced by rising food and beverage prices. Another sign of changing economic behavior is the 4% decline in car sales in 2023, coupled with a 19% rise in motorcycle sales which indicating reduced purchasing power. These trends underscore the urgent need for policies that can strengthen the middle class and ensure long-term economic stability (Moawad & Oesch, 2024).

One of the primary tools in controlling inflation in Indonesia is monetary policy. Bank Indonesia has implemented a series of monetary tightening measures aimed at stabilizing inflation, which is projected to remain around 2.5% in 2024 and 2025 (Borowski et al., 2025). These efforts reflect the central bank's attempt to balance inflation control with economic growth objectives. In terms of commodity prices, Indonesia's economy has benefited from strong global commodity prices, which have supported overall economic performance. However, such prices have also fueled inflationary pressures, especially in sectors sensitive to international commodity market fluctuations (Pratomo et al., 2020). Domestic demand has also played a significant role in shaping inflation dynamics. Despite soft labor market conditions and low real wage growth, household consumption remains a key economic driver. Nevertheless, high headline inflation has curtailed domestic demand and slowed the pace of private consumption growth (Moawad & Oesch, 2024).

Between January 2022 and January 2025, Indonesia experienced a dynamic trajectory of inflation and deflation that reflected deeper macroeconomic transformations and structural vulnerabilities. According to data published by Badan Pusat Statistik (Central Statistics Agency), the annual inflation rate as of December 2024 was recorded at 1.57%, with a Consumer Price Index (CPI) of 106.80. Within this period, Papua Pegunungan Province reported the highest inflation rate at 5.36%, while Gorontalo Province experienced a rare deflationary trend of -0.79% (Badan Pusat Statistik (BPS), 2024).

By January 2025, the inflation rate had declined markedly to 0.76% year-on-year, with the CPI decreasing to 105.99. This downward trend was largely attributed to price adjustments across various expenditure components. Notably, while the food, beverage, and tobacco category continued to post inflation of 3.69%, the housing, water, electricity, and household fuel group recorded a significant deflation of -8.75%. This shift illustrates a cooling domestic economy with reduced cost pressures in essential services and commodities (Bank Indonesia (BI), 2025).

Looking ahead, Indonesia's GDP growth is projected at approximately 4.9% in 2023 and expected to reach 5.2% in both 2024 and 2025. This growth is largely driven by household consumption and residential construction activities (OECD, 2023). The projected expansion of economic activities is anticipated to alleviate deflationary concerns, as economic growth typically supports price stability. However, global economic conditions pose significant risks. Indonesia's economy remains sensitive to global headwinds, including geopolitical tensions and the slowdown in global trade. These factors can impact inflation and deflation trends by influencing the country's export and import activities, which are crucial to national economic performance (Stantcheva, 2024).

The most significant economic shift emerged in February 2025, when Indonesia recorded its first year-on-year deflation (-0.09%) in over two decades. This deflation was driven by a sharp decline in utility costs and prices of strategic food commodities; such as rice, tomatoes, and red chillies which saw a recovery following improved agricultural production post-drought (Bank

Indonesia, 2025). While lower consumer prices may offer short-term relief, this development also raised concerns about demand-side weaknesses and broader economic stagnation.

Deflationary predictions significantly influence delayed consumption behavior, as buyers anticipating reduced future costs sometimes defer purchases in hopes of securing more advantageous offers later. The decline in immediate consumer demand undermines sales in the domestic retail sector, resulting in decreased revenues and perhaps surplus inventory. As retail activity diminishes, manufacturing sectors experience repercussions through reduced orders, production reductions, and underutilization of capacity. This cycle may result in diminished corporate investment, employment reductions, and downward wage pressure, so exacerbating the deflationary tendency and intensifying economic stagnation. Consequently, deflationary expectations not only inhibit consumer expenditure but also create extensive economic pressures across vital domestic industries.

Correlation between Deflation and Middle-Class Contraction

Indonesia's middle class remains a crucial engine of economic growth. As of 2024, middle-income earners and those approaching this category made up approximately 66.35% of the total population, contributing 81.49% to national household consumption (World Bank, 2024). However, recent data reveal a worrying trend of declining purchasing power and economic vulnerability among this demographic.

The relationship between deflation and middle-class contraction is a complex issue involving multiple economic dynamics. Deflation, characterized by a general decline in prices, can have both corrosive and benign effects on the economy, impacting the middle class in varying ways (Bilgin et al., 2021). While deflation can lead to reduced economic activity and rising unemployment, it does not necessarily result in the contraction of the middle class. The effects of deflation on the middle class are often mediated by economic policy responses, the structure of the economy, and prevailing socio-economic conditions (Ramakrishnan, 2012).

Historically, deflation has been associated with reduced economic performance, as seen during the Great Depression and Japan's deflationary period in the late 1990s and early 2000s. These periods were marked by substandard growth and rising unemployment, which indirectly affected the middle class through reduced job opportunities and lower income levels (Johnson, 2015). However, not all deflationary periods lead to poor economic outcomes. For instance, the United States experienced rapid economic growth during the late 19th century despite mild deflation, indicating that the impact of deflation may vary depending on broader economic contexts (Goodfriend, 2012).

Economic recessions, often linked to deflation, can exert "middle-class pressure," in which the middle class experiences income stagnation or declines in wealth. The Great Recession, for example, led to a significant drop in median wealth and increased inequality, with the middle class disproportionately affected (Blanchflower & Bryson, 2022). Nevertheless, the relationship between recession and middle-class contraction is not straightforward. Some studies suggest that the middle class has experienced income growth and job expansion over recent decades, challenging the consistent narrative of middle-class decline (Saha, 2022).

Monetary policy plays a vital role in managing deflation and its effects on the economy. Central banks can deploy monetary tools to prevent deflation and mitigate its impact on economic activity and the middle class. However, if poorly managed, monetary policy can also contribute to deflationary pressures and economic stagnation (Ferguson & Storm, 2023). The effectiveness of monetary policy in addressing deflation and supporting the middle class depends on the central bank's ability to navigate the zero lower bound and maintain financial stability (Strain, 2022).

Deflation also influences consumer behavior, as individuals may delay purchases in anticipation of further price drops. However, evidence suggests this effect may not be as pronounced as commonly assumed, indicating that the impact of deflation on aggregate demand and the middle class might be limited (Ge, 2024). The relationship between deflation and middle-class contraction is further complicated by global economic trends and structural shifts, such as the transition to a global economy and the influence of long economic cycle (Kobayashi, 2025).

While deflation poses risks to economic stability and the middle class, its effects are not uniform and depend on a range of factors, including policy responses and broader economic

conditions. The middle class may not always contract during deflationary periods, as other dynamics; such as income growth and employment trends may counterbalance potential negative effects. Understanding the nuanced relationship between deflation and the middle class requires considering this broader economic and policy context (Whittaker, 2024).

Several key indicators highlight this fragility. First, the average savings balance fell from IDR 3.8 million in April 2018 to just IDR 1.8 million by April 2024 (Otoritas Jasa Keuangan (OJK), 2024). Second, the middle class's contribution to GDP through household consumption dropped from 41.9% in 2018 to 36.8% in 2023, indicating weakening financial resilience and reduced aggregate demand. Third, the share of household expenditure on food increased from 36.6% in 2014 to 41.3% in 2023, implying that a growing proportion of income is being allocated to basic necessities, leaving less for education, health, or investment (Badan Pusat Statistik (BPS), 2024).

Moreover, changes in consumer behavior further reflect this shift: car sales declined by 4% in 2023, while motorcycle sales surged by 19% means signaling a move toward more cost-efficient transport solutions. These statistics collectively point toward a shrinking capacity of the middle class to support the economy through discretionary spending and investment. Supporting this interpretation, (Siegel, 2021) observed that a 20% increase in middle-class income only yielded less than 1% in national output growth, indicating a low-income elasticity of consumption. Similarly, (Wu, 2022) highlighted persistent structural challenges such as wage stagnation and high living costs, which hamper social mobility and income progression. Thus, the contraction of the middle class in recent years should be understood as both a consequence and a driver of Indonesia's deflationary environment.

The rising motorcycle acquisitions and declining automobile purchases can act as a structural indication of consumption trends, reflecting profound alterations in consumer choices, income distribution, and urban economic conditions, rather than simply a transient price reaction. This trend may signify a shift in household priorities towards more economical and pragmatic transportation options due to stagnant or diminishing spending power among the middle class. This may indicate urban mobility issues, including traffic congestion and inadequate public transportation, rendering motorcycles more appealing for everyday commuting. Furthermore, this transition may underscore a wider transformation in lifestyle, employment patterns (e.g., the emergence of gig economy positions necessitating personal mobility), and spatial dynamics in urban and peri-urban regions. By examining this consumption shift within a structural framework, policymakers can get insights into fundamental economic pressures, changing consumer behavior, and infrastructural requirements, facilitating more precise actions that tackle the underlying causes of diminished high-value consumption.

In analysis of macroeconomic indicators from 2024 to 2025 suggests a strong correlation between the deflationary trend and the declining strength of Indonesia's middle class. Although deflation might superficially benefit consumers by lowering prices, it often reflects reduced domestic demand and business contraction. In Indonesia's case, deflation was accompanied by weakened business activity, job losses, and stagnating household income particularly among the middle class. Consumer behavior also evolved in ways that reinforced deflationary pressures. Households exhibited deflationary expectations, delaying purchases in anticipation of further price drops. This behavioral shift further reduced aggregate demand, hampering economic recovery and discouraging business expansion. Consequently, deflation became not merely a monetary phenomenon but a structural signal of eroding middle-class stability.

4. CONCLUSION

From January 2022 to January 2025, Indonesia experienced fluctuations in inflation and deflation that reflected broader macroeconomic dynamics both domestically and globally, with significant implications for the middle class, which is a key driver of national consumption. While deflation may offer short-term relief through lower prices, in Indonesia's context it signaled weakening domestic demand, declining purchasing power, and mounting structural pressures on the middle class, as seen in falling savings, shifting consumption patterns, and reduced contributions to GDP. Contributing factors such as monetary policy adjustments, global commodity price volatility, and stagnant wages further exacerbated middle-class contraction, deepening the challenges of

economic recovery. Therefore, deflation during this period should not be viewed merely as a monetary phenomenon but as a structural indicator of eroding middle-class resilience, necessitating comprehensive policy responses to restore economic stability and strengthen the role of the middle class.

Even the government's fiscal function via targeted subsidies and household tax reform is essential in the strategy for reinstating middle class purchasing power, since it directly tackles both urgent financial assistance and long-term income stability. Targeted subsidies for electricity, food, or education mitigate critical living expenses, enabling middle-class households to redirect expenditures towards alternative consumption or savings. These subsidies must be precisely tailored to effectively reach the intended beneficiaries without distorting market signals or imposing a burden on the fiscal budget. Simultaneously, reforming household taxes by augmenting the progressivity of income taxes, providing deductions for dependents, education, or healthcare expenses, and alleviating the tax burden on lower-middle-income earners can improve disposable income and encourage productive economic activities. When included into a comprehensive economic strategy, these fiscal instruments not only shield households from inflationary or deflationary forces but also enhance aggregate demand, bolster consumer confidence, and promote inclusive growth. Consequently, fiscal policy serves as a crucial structural mechanism in restoring middle-class resilience and fostering lasting economic recovery.

The findings can inform a policy framework that transcends price control by emphasizing methods that bolster the socio-economic resilience of the middle class through a comprehensive approach. This entails the execution of specific fiscal policies, including tax incentives, social protection initiatives, and access to affordable credit, to enhance disposable income and financial stability. Simultaneously, investment in human capital via education, upskilling, and healthcare guarantees sustained productivity and flexibility in an evolving economy. Policies must also bolster small and medium firms (SMEs), which are vital employers for the middle class, by enhancing access to markets, technology, and infrastructure. Moreover, enhancing consumer trust via honest information, social safety nets, and inflation-indexed savings mechanisms can mitigate postponed purchasing behavior. The policy framework fosters economic stability, strengthens the middle class, and mitigates susceptibility to deflationary shocks or market fluctuations through the integration of various factors.

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