Jurnal Masharif al-Syariah: Jurnal Ekonomi dan Perbankan Syariah
ISSN: 2527 - 6344 (Printed), ISSN: 2580 - 5800 (Online)
Accredited No. 204/E/KPT/2022
DOI: https://doi.org/10.30651/jms.v11i4.32608
Volume 11, No. 4, 2026 (1860 - 1882)

US-IRAN CONFLICT: THE IMPACT OF INFLATION AND ISLAMIC ECONOMIC PERSPECTIVE CONTROL STRATEGIES IN INDONESIA-MALAYSIA

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Abstract
The world is currently experiencing geopolitical uncertainty caused by the US and Iran conflict. This conflict poses a special problem, namely the closure of the Strait of Hormuz in Iran. This closure has an impact on the lack of crude oil supply to Indonesia and Malaysia. This condition has resulted in a global energy crisis. The global energy crisis increases the risk of inflation of goods and services. This study aims to examine the relationship between the conflict between the United States and Iran and inflation in Indonesia and Malaysia and highlight the importance of controlling Islamic perspectives to solve this problem. This study uses a descriptive qualitative approach, with secondary data sources from the geopolitical risk index (GPRC), political economy uncertainty (WUI), world economic forums and the Central Statistics Agency (BPS). The results of the study show that the conflict between the US and Iran has an effect on inflation in Indonesia and Malaysia. Inflation in Indonesia caused a 100% spike in plastic prices. Meanwhile, in Malaysia there has been an increase of 40%. The inflation stabilization strategy is carried out through controlling the Islamic perspective using Islamic monetary and fiscal instruments.
Keywords: US-Iran Conflict, Global Economic Uncertainty, Inflation, Islamic Perspective Control Policy

1. Introduction

The current geopolitical dynamics show an increasing intensity, this is happening because of the conflict between the United States and Iran. Relations between the United States and Iran have long been the focus of international attention, especially because of the growing tensions that often lead to open conflict (Mercille, 2008; Ruiz Estrada et al., 2020). This perennial dispute is not only based on ideological and political gaps but also encompasses broader geopolitical conflicts, including the international interests of major global powers (Baqi, 2022; Ilham, 2019; Mikail, 2018; Umam, 2022).

The tensions between the United States and Iran could trigger geopolitical risks. According to Caldera & Iacoviello (2018), geopolitical risk is a risk related to war, acts of terrorism, and tensions between countries that affect the course of domestic politics and international relations. Based on this understanding, Geopolitical Risk can be measured through the Geopolitical Risk Index (GRPC). The GRPC uses a measurement of the number of occurrences of words related to political tensions that have appeared in 11 leading international newspapers from January 1985 to the present. According to Caldasaa & Iacoviello (2018) the GRPC Index is the total number of articles in each international newspaper, which is normalized to an average of 100 for the period 2000-2009. GRPC in this case makes it possible to measure the occurrence of wars, terrorist acts and state tensions.

Geopolitical risks can be seen from the aspects of internal risk and external risk. Internal risk is something that occurs in the domestic conditions of each country in conflict, both material and immaterial losses. The risks that occur in the material aspect include losses from the United States military which is currently US$2 billion dollars or equivalent to Rp 33.8 trillion. Meanwhile, from the Iranian side, the government has announced a loss of US$170 billion dollars, a pretty fantastic figure. The material risks of the two countries will continue to increase if the conflict is not immediately ended. Eccentric risks have a very massive impact that has targeted the domestic conditions of countries that are not in conflict. The global energy crisis is a crucial point due to the effects of tensions between the United States and Iran that can trigger economic turmoil in various countries. Several events in recent years, such as the global financial crisis, political polarization and trade conflicts, and the pandemic have raised concerns over rising economic uncertainty (Bloom, 2023). The Southeast Asian region, especially Indonesia and Malaysia, cannot be separated from the current conditions. Difficulties in fulfilling natural resources, especially oil, can trigger scarcity and price increases.

In addition, the relationship between economics and politics is very close. In measuring the tensions that occur in economic and political aspects, *the Economic Political Uncertainty Index* (WUI) is used. According to Ahir et al. (2022), an index is developed that captures uncertainty related to economic and political developments (WUI), both in the short and long term. The measurement of the WUI index is by calculating the occurrence of the number of words of uncertainty mentioned in the country report in the *Economist Intelligence Unit* (EIU) by scaling the number of words related to uncertainty per thousand words in the report.

The conflict between the United States and Iran has been going on since 1979 under the leadership of Ayatollah Rohullah Khomein who strongly opposed US intervention because it was different from Iran's ideology (S. Koloay et al., 2024). The conflict is set to heat up over time in 2026, due to disputes over nuclear development. The dispute not only triggered an armed war between the two countries, but also extended to economic game strategies. In this case, Iran responded by closing the

Strait of Hormuz which is the world's global source of oil. According to data reported by the US Energy Information Administration (EIA) in 2018, the average amount of oil passing through the strait can reach 28 million barrels of oil per day, which means that it is equivalent to 21% of global petroleum consumption (Hasibuan, 2020).

The impact of the closure of the Strait of Hormuz has caused a domino effect felt by various countries that import oil from Iran, including Indonesia and Malaysia. This can certainly trigger global economic uncertainty that can disrupt the course of the domestic economy in each country, because there are price fluctuations that tend to increase. This targets global energy. The global energy crisis could trigger a devastating wave of inflation. High inflationary pressure can cause a decrease in people's *purchasing power*, so that it can hinder consumption from the public, which can directly affect Indonesia's unstable economic conditions. When associated with the value of the economic uncertainty index, if the high level of EPU can negatively impact economic growth and financial market performance (Baker et al., 2021; E.K.Chowdhury et al., 2022; Liu & Chen, 2022; Xiong et al., 2018).

Inflation is the main focus in economic growth because it is a condition in which the prices of goods and services in general increase over time (Anggadini et al., 2023). Changes in the inflation rate have a major impact on various aspects of the economy, including people's purchasing power (Noviani, 2022). Indonesia has experienced unstable fluctuations in the inflation rate in recent years, which can have a significant impact on people's daily lives. Uncontrolled inflation can harm people's ability to buy goods and services, disrupt financial planning, and create great economic pressures. Changes in people's purchasing power not only reflect the economic conditions of a country, but also have a far-reaching impact on social welfare and stability. This study aims to explain how inflation specifically affects people's purchasing power, including its impact on consumption, investment, and savings patterns (Pamungkas & Susilowati, 2023).

1.1 Table

Year	*Indonesia*	*Malaysia*
2023	2,61	2,50
2024	1,57	1,80
2025	2,92	1,40
2026	3,08	1,90

Source : Data from the Central Statistics Agency (BPS), 2023-2026

Table 1. Inflation in Indonesia and Malaysia

Based on inflation data in recent periods, Indonesia recorded an inflation trend that tends to increase from 2024 which recorded inflation of 1.57% and in 2026 in the first quarter, inflation data was recorded at 3.08%, meaning that there was an upward trend of 1.51%. Meanwhile, in Malaysia, it shows a downward trend from 2024 to 2025, then increased in 2026, by 1.90% in the first quarter. The increase was caused by several factors, one of which was fluctuations in energy prices globally which could affect the increase in domestic commodity prices. Therefore, in-depth knowledge of inflation is very important to formulate effective economic policies (Parakkasi, 2016).

Economic policies implemented by the government must be able to maintain inflation stability. Various control strategy efforts that have been set by the government include optimizing monetary policy. In Indonesia, the implementation is carried out by increasing interest rates with the aim of maintaining the rupiah exchange rate and controlling inflation. In addition, the strengthening of fiscal policy and structural policy aspects in dealing with inflation shocks that occur.(Sekarsari et al., 2024). Meanwhile, in Malaysia, inflation control is carried out by optimizing monetary policy through credit regulation, where the Malaysian central bank must try to control the quantity and quality of debt in the country (Yusof et al., 2021). However, from an Islamic perspective, the view of inflation goes beyond the economic aspect alone. Islam as a religion provides a holistic view of human life, so that monetary and fiscal policies implemented by the government are not only based on conventional aspects, but also prioritize Islamic values.

Although basic understanding has been provided by previous studies, more in-depth analysis is still needed. This study aims to explore the influence of the United States-Iran conflict that affects the inflation rate in Indonesia and Malaysia. To understand this comprehensively, this study is divided into two main parts. First, it outlines the relationship between the conflict between the United States and Iran and the inflation rate in Indonesia and Malaysia. Second, discussing various control strategies that can be applied by the government and related stakeholders to help reduce the negative impact of the conflict between the United States and Iran on inflation, by establishing and strengthening monetary and fiscal policies by prioritizing Islamic values and not only relying on conventional aspects. This research is expected to provide useful recommendations for policymakers in maintaining the stability of the inflation rate in Indonesia and Malaysia and encouraging inclusive economic growth in both countries.

2. Literature Review

2.1 The conflict between the United States and Iran

The conflict that occurred between the United States and Iran, made the Middle East country volatile, thus causing unavoidable geopolitical risks. Over the following decades, tensions between the United States and Iran often revolved around issues such as Iran's nuclear program, Iran's support for militant groups in the Middle East, and U.S. intervention in the region (Pareanom & Rofiqi, 2005). According to Jorry, et al. (2024) said that the conflict between the United States-Israel and Iran shows a protracted phenomenon of retaliation, which encourages the occurrence of regional/regional tensions that have been volatile towards an increasingly widespread conflict. The open conflict between Iran and Israel can attract major countries in the world to be involved in it such as the United States, Russia and China with their respective alliances which can trigger the occurrence of a 3rd world war. This prolonged conflict can cause universal global economic uncertainty, not only affecting the Middle East region, but also countries in the Asean region, especially Indonesia and Malaysia.

2.2 Global Economic Uncertainty

Global economic uncertainty can be defined as a condition where there is doubt or ambiguity about the future direction and development of the world economy. This uncertainty is characterized by the difficulty of predicting macroeconomic variables such as economic growth, inflation, exchange rates, and investment over a certain period of time (Ningsih & Pratama, 2024). The concept of global economic uncertainty encompasses the overall condition of the world economy that cannot be predicted with certainty due to various internal and external factors interacting with each other. When there is global economic uncertainty, such as political tensions, changes in monetary policy, or economic crises in key countries, this can affect commodity prices, currency exchange rates, and capital flows. This is in line with research from Global economic uncertainty has a major impact on the inflation rate in a country.

2. 3 Inflation

Inflation is defined as a consistent phenomenon in the overall price increase. (Fadilla, 2017). The increase in prices occurred in primary, secondary and tertiary needs in the long term. The increase in aspects of vital needs related to the wheels of the community's economy will cause people's *purchasing power* to decrease and cause a tendency to increase inflation for a long time. If there is no solution to overcome the cause of inflation itself, it can put pressure on economic stability in Indonesia and Malaysia. Based on research conducted by Dewi., et al. (2024) it is explained that inflation has an impact on macroeconomic stability ininvestment, growth, employment, and prices, emphasizing the need for a deep understanding for better economic decision-making.

Inflation is a major concern for the government because of its widespread impact on various aspects of the macroeconomy, such as stability, economic growth, competitiveness, income distribution and interest rates. In addition, inflation plays an important role in regulating the flow of funds through official financial institutions. (Riani, 2003). The increase in raw prices and logistics needs occurred due to the energy crisis, one of which is oil, where the global oil distribution route through the Strait of Hormuz is disrupted. The Strait of Hormuz is the only waterway that leads out of the Persian Gulf. All tankers shipping or taking oil from Persian Gulf ports must pass through this strait. The strait is controlled by three countries, Iran controls the northern coast of the strait, while Oman and the United Arab Emirates control the southern coast. The strategic position of the Strait of Hormuz makes this area prone to conflict (Hasibuan, 2020). Inflation in the context of this study refers to *cost-push inflation*, which is inflation that occurs due to an increase in the price of raw materials and domestic logistics needs.

2.4 Cost-Pull Inflation

Cost Push Inflation caused by the supplier's product cost is referred to as cost push inflation. Nugraha et al. (2023) established that cost-driven inflation is caused by a shift in the aggregate supply curve to the upper left. The factors that cause the aggregate supply curve to shift, according to Chirat and Clerc (2023), are the increase in the price of factors of production (both domestic and foreign) in the factor of production market, thus causing an increase in commodity prices in the commodity market. Cost-driven inflation leads to price increases that are often followed by business sluggishness.

This Inflation, occurs when there is an increase in production costs that cause higher prices of goods and services. Unlike demand-pull inflation, which is driven by excess demand, cost-pull inflation is caused by factors that increase the cost of production (Jacques et al., 2023). This type of inflation is often associated with rising wages, rising raw material costs, or changes in government regulations that increase production costs (Yusnaini et al., 2023). In this study, cost boost inflation can be seen from the surge in world crude oil prices. When the price of crude oil rises, it leads to higher production costs, which are then passed on to consumers through increased prices of fuel or other primary necessities. This, in turn, affects operational costs that tend to increase.

Cost Push Inflation, can have a significant negative impact on the Indonesian economy, so that consumers' purchasing power decreases along with price increases due to increased production costs. This can lead to a decline in consumer spending, affect businesses and slow economic growth. This is reinforced by research conducted by Anachedo et al., (2023) that higher production costs can reduce business profitability, leading to potential job losses and reduced investment. In addition, cost-driven inflation can create uncertainty in the economy. Businesses may become hesitant to expand or invest in new ventures due to unpredictable future production costs (Tumala et al., 2023). This can result in a slowdown in innovation and economic development.

2.5 Inflation from an Islamic perspective

In Islamic perspective, inflation is inseparable from the economic principles found in Islamic teachings. During the early days of Islam, economics was based on the principles of equilibrium and the fair distribution of adverse practices. In the post-Prophet Muhammad period, Islamic scholars developed economic thinking based on the principles of sharia principles (Amalia Shofia & Ichsan Iqbal, 2024).

The theory of inflation in Islam, put forward by Muslim scientists, explains that inflation has harm to the economy, this is due to several aspects that include, lack of enthusiasm for people to save money, encourage the consumption of prestigious goods and reduce ownership of productive assets.

In Islam, there is no understanding of inflation because the stability of the currency is maintained by using dinar and dirham. However, depreciation can still occur if the value of gold that supports the dinar exchange rate decreases. For example, due to the discovery of large quantities of gold, although the possibilities are very minimal. Taqiuddin Ahmad ibn al-Maqrizi (1364 AD - 1441 AD), a Muslim economist and a disciple of Ibn Khaldun, classified inflation into two types: natural inflation due to a lack of supply of goods (natural inflation) and inflation caused by human error (Human Error Inflation). Inflation was natural in the time of the Prophet Muhammad and Khulafaur Rashidin, which is inflation that occurred as a result of conditions such as drought or war. According to Al-Maqrizi, the second type of inflation is caused by three main factors. First, corruption and poor administration. Second, the implementation of overdue taxes on farmers. Third, the increase in the money supply in circulation. (Adiwarman A. Karim in Syakir, 2015).

2.6 Handling Islamic perspective (Riqabah)

Control in the Islamic perspective is part of *controlling* (riqabah) in the Islamic perspective. Riqabah is a control that aims to align the organization with the goals to be achieved, which must be guided by the Qur'an. This control not only includes material aspects, but also spiritual aspects by ensuring that the goals to be achieved do not experience serious failures in the future (Saputra, 2025). The control of the Islamic perspective in inflation is related to the implementation of economic policies carried out by the government. The government sets policies that must prioritize the benefits of human beings and minimize various risks that occur before implementing its policies.

3. Research Methods

This study uses a qualitative approach with a literature study method to analyze in depth the influence of the United States and Iran conflict on the Inflation Rate in Indonesia and Malaysia. The data used in this study comes from various secondary sources, such as scientific journal articles, research reports, official publications, and related documents that discuss global economic conditions and inflation in Indonesia and Malaysia which can be seen from the Geopolitical Risk Index (GRPC), the Political Economy Uncertainty Index (WUI), the World Economic Forum, and the Central Statistics Agency (BPS) data. In this way, research focuses on collecting and analyzing existing information to obtain a comprehensive picture of the phenomenon being studied. Through this literature review approach, the research aims to identify the main factors that cause global economic uncertainty and their impact on macroeconomic variables, especially inflation. The analysis was carried out systematically by examining the findings of various previous studies so as to provide a deeper understanding of how fluctuations in the world economy can affect the inflation rate in Indonesia and Malaysia and the implications for the national economy. This approach also allows researchers to develop relevant insights as the basis for future policy recommendations.

Data collection is a crucial step in the research process that aims to obtain the information needed to answer research questions using various techniques and methods designed to ensure the accuracy and reliability of the data (Sugiyono & Lestari, 2021. The data collection technique used is a literature study, which requires the exploration of books, library records, and other references relevant to the theory and model of ownership in an Islamic perspective (Yusuf, 2017). The data will be analyzed thematically to identify emerging patterns, themes, and concepts related to inflation from an Islamic perspective, in addition to the data will also be interpreted taking into account the Islamic economic context, sharia principles, and relevant theoretical frameworks and looking at the linkages that occur with the dynamics between the United States and Iran.

4. Results and Discussion

4.1 The Relationship of the United States and Iran to the Global Economy

The conflict between the United States and Iran is the central cause of economic uncertainty in 2026 whose impact is felt by countries in various parts of the world. This condition creates an unstable business environment, where economic actors have difficulty in making long-term planning and investment decision-making (Sari & Wibowo, 2023). Various impacts that occur on the global economy, including:

1. **Rising World Oil Prices**

   The increase in world oil prices occurred due to the closure of the Strait of Hormuz, which in this case occurred due to the feud that has occurred between the United States and Iran since 2018. In 2018, in July, the Trump administration asked all countries to stop importing oil from Iran. This was responded by President Rouhani that if the US threat is implemented, Iran has the ability to close the world's oil distribution channels (Hasibuan, 2020). Then, conditions will worsen in 2026 due to disputes related to nuclear development. Countries in Southeast Asia that depend on oil supplies from Iran are particularly affected. This condition can be seen from the Philippines, which in March 2026 has declared a national energy crisis. For Indonesia, the increase in global oil prices has resulted in an increase in the price of non-subsidized fuel such as Pertamina Dex and Pertamax. However, fuel supply is still maintained because the supply of oil from domestic refineries is still sufficient and the government is making alternatives to imports from other countries, such as Russia. Then for Malaysia, according to data reported by ecentral, it is stated that the oil supply has decreased and the increase in fuel prices has occurred in RON 97, Ron 95 without subsidies, and Diesel in Malaya.

2. **Weakening of the rupiah and ringgit exchange rate**

   Conflicts between the United States and Indonesia can have an impact on the depreciation of a country's exchange rate, including Indonesia and Malaysia. The value of the dollar, which continues to strengthen, will cause the depreciation of the value of the rupiah and the Malaysian ringgit. This condition, if it occurs for a long time, can cause *imported inlation* so that it has an impact on the decline of the community's economy due to the increase in imported goods. In Indonesia, the exchange rate against the dollar as of June 5, 2026 touched Rp.18,129, which exceeded the assumption of the state budget of 16,500. Then in Malaysia, the exchange rate against the dollar is Rm. 4.04, a decrease compared to 4.17 in 2025. This indicates that the exchange rate has decreased not due to the poor performance of the rupiah, but due to the external impact, namely the war. So in this war, it caused a decline in the exchange rate of the rupiah and the Malaysian ringgit against the US dollar (Banurea et al., 2023). Therefore, it is necessary to strengthen fiscal and monetary policies in both countries to maintain monetary stability.

3. **Exports and imports on the Trade Balance**

   In meeting domestic needs, each country conducts international trade. Trade can be carried out bilaterally by both parties who will enter into a trade agreement. The trading mechanism can be done through Import and export.

The conflict that occurred between the United States and Iran disrupted the course of trade that occurred, both exports to the United States and Iran or imports from both countries.

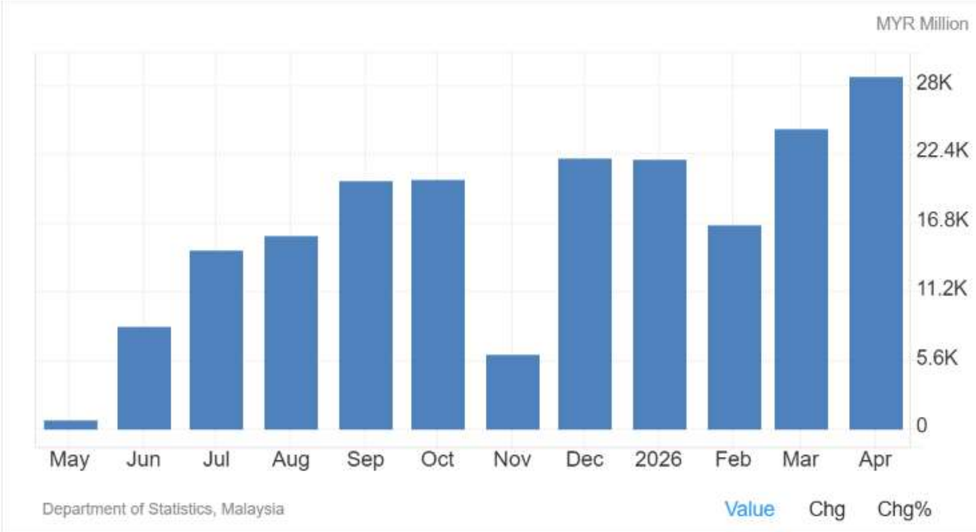
4.1.1 Figure 1

Source : Trading Economics, (2026)

Figure 1. Indonesia’s Trade Balance

Data released by the Central Statistics Agency (BPS) for 2026, shows that Indonesia's trade surplus narrowed to USD 0.09 billion in April 2026 from USD 0.20 billion in the same month last year, well below expectations of USD 1.5 billion and marking the smallest trade surplus since Indonesia recorded a deficit in April 2020. This is because imports have a larger percentage than exports. Oil and gas imports jumped 85.52%, while oil and gas exports fell 1.20%, due to sharp declines in crude oil (-35.54%) and natural gas (-13.28%). With the closure of the Strait of Hormuz as the main source of global oil trade, Indonesia diverted alternatives to meet oil supplies by importing to various countries such as Russia, so that bilateral cooperation in the aspect of trade between Iran was disrupted.

4.1.2 Figure 2



Source : Trading Economics, (2026)

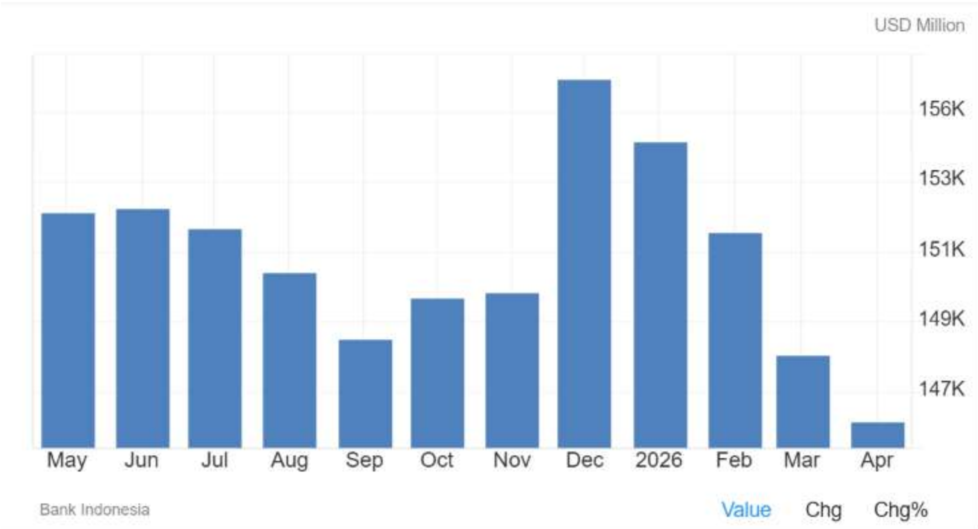
Figure 2. Malaysia's Trade Balance

Based on data released by the Malaysian Department of Statistics, Malaysia's trade surplus jumped to MYR 28.8 billion in April 2026 from MYR 5.1 billion in the same month last year, exceeding market expectations of MYR 16.6 billion. However, imports from the US tend to decline by 48.1%. This is due to the high import duty rate, from the initial 24% drop to 19% after negotiations. This can certainly hinder the pace of trade between the two countries with the imposition of high tariffs so that there is an increase in the cost of needs, a decrease in people's purchasing power, and an increase in the amount of energy subsidies. The impact caused by the war is very detrimental to both countries that establish bilateral cooperation. Before this conflict, Indonesia and Malaysia had already felt the impact of trade disruptions, especially exports, from the Russia and Ukraine war. (Banurea et al., 2023).

4. **Pressure on Malaysia's and Indonesia's Foreign Exchange Reserves**

Pressure on foreign exchange reserves can affect the economy in a country. This can happen, when foreign exchange is used to minimize the weakening of the exchange rate against the US dollar. At the time of the conflict between the United States and Iran, the position of foreign exchange reserves in 2026, especially in April, decreased by 146.2 billion SD 148.2 billion in March, marking the lowest level since July 2024. In these conditions, Bank Indonesia is forced to intervene to stabilize the rupiah exchange rate against the dollar.

4.1.3 Figure 3

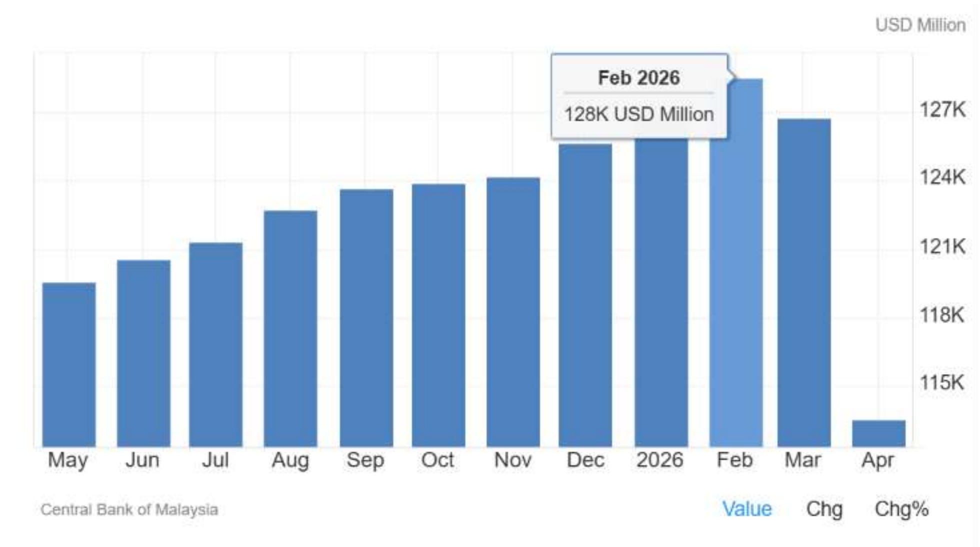


Source : Trading Economics, (2026)

Figure 3. Foreign Exchange Reserves in Indonesia

Based on data released from Tradings Economics which summarizes the amount of Indonesia's foreign exchange reserves in 2025 from May to April 2026. Before the conflict heated up in 2026, the amount of Indonesia's foreign exchange reserves was still fluctuating steadily with a not too significant decrease. At the time of entering 2026, which is marked by conflicts that occur due to disputes between the United States and Iran, the rupiah exchange rate tends to weaken, so Bank Indonesia intervenes by using foreign exchange, namely foreign exchange, to stabilize the rupiah exchange rate against the rupiah, so that it will directly reduce the amount of foreign exchange.

4.1.4 Figure 4



Sumber : Trading Economics, (2026)

Figure 4. Foreign Exchange Reserves in Indonesia

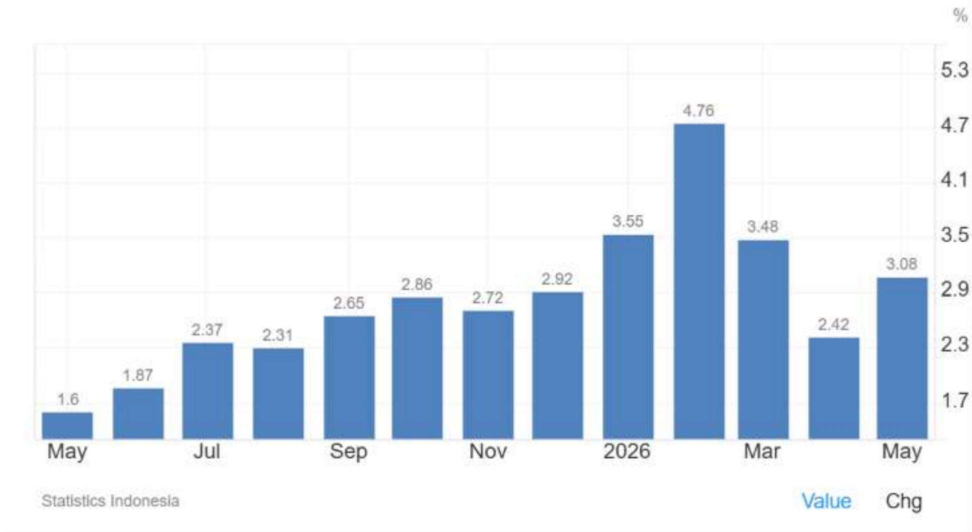
Data released by trading economics in 2026, it can be seen that Malaysia's foreign exchange reserves decreased from February to a low point in April to 114 K USD, from the previous 128 K USD. The decline in the amount of foreign exchange in Malaysia is due to global pressures that cannot be denied. (Lituhayu et al., 2024). Malaysia's central bank forced to use foreign exchange intervention to stabilise Malaysian ringgit exchange rate.

5. **Inflation**

Pressures due to the conflict between the United States and Israel can trigger fluctuations in macroeconomic aspects, one of which is inflation (Rahmadany & Imron Mawardi, 2025). Inflation is an increase in the price of goods in the long term. Inflation that occurs for a long time can cause a decrease in people's purchasing power. The increase in the inflation rate has been found to have a negative impact on employment and income (Attanasio, 2011; Szekely, 2011). As a result, companies suffer losses because sales volume has decreased, so that it can indirectly reduce the number of employees so that layoffs occur.

An indicator that can be used to measure inflation, using the Philips Curve. The Phillip Curve is a fundamental model in macroeconomic analysis, which expresses the trade-off between inflation and unemployment. If inflation rises, the unemployment rate will fall and vice versa (Jackson, 2024). The increase in global oil prices has prompted revisions to the inflation rate in various countries, including Indonesia and Malaysia.

4.1.5 Figure 5



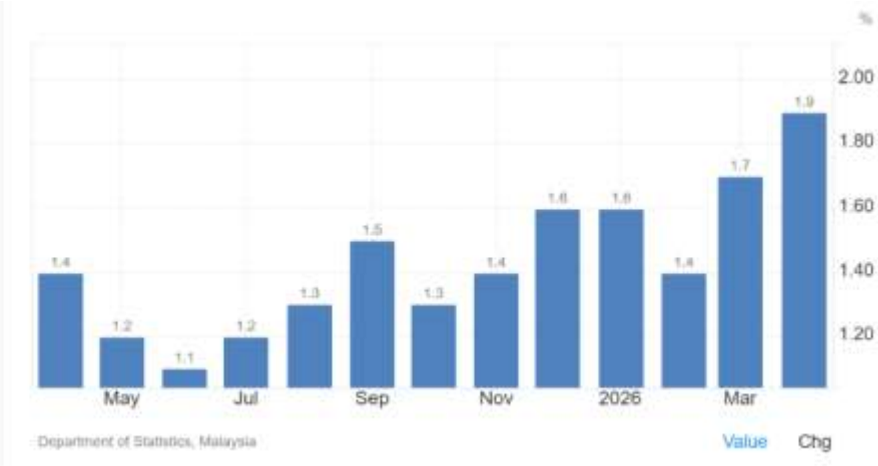
Sumber : Trading Economics, (2026)

Figure 5. Inflation in Indonesia

Based on data released by trading economics in 2026, inflation in Indonesia will increase to 3.08% in May 2026 from an eight-month low of 2.42%

in the previous month. This happens because the cost of producing goods is increasing, resulting in *cost pull inflation*. Cost Pull Inflation is a cost-driven inflation that occurs when there is an increase in production costs that causes an increase in the price of goods and services (E.A. et al., 2023).

4.1.6 Figure 6



Sumber : Trading Economics, (2026)

Figure 6. Inflation in Malaysia

Data released by the Department of Statistics Malaysia in 2026, shows that there will be an increase in inflation in March 2026 of 1.9% and is the highest point of inflation since April 2025. Basedon the Malaysian Economic Outlook report for the first quarter of 2021, due to geopolitical uncertainty, declining commodity prices, and the rapid escalation of the Covid-19 pandemic, the ringgit experienced a rapid depreciation against the US dollar. When the ringgit depreciates, this results in a decrease in the exchange rate, thus causing an increase in the inflation rate (Yusof et al., 2021).

4.2 The Relationship of the United States and Iran to the Global Economy Increase *in the Geopolitical Risk Index* and *Word Uncertainty Index* due to the United States and Iran Conflict.

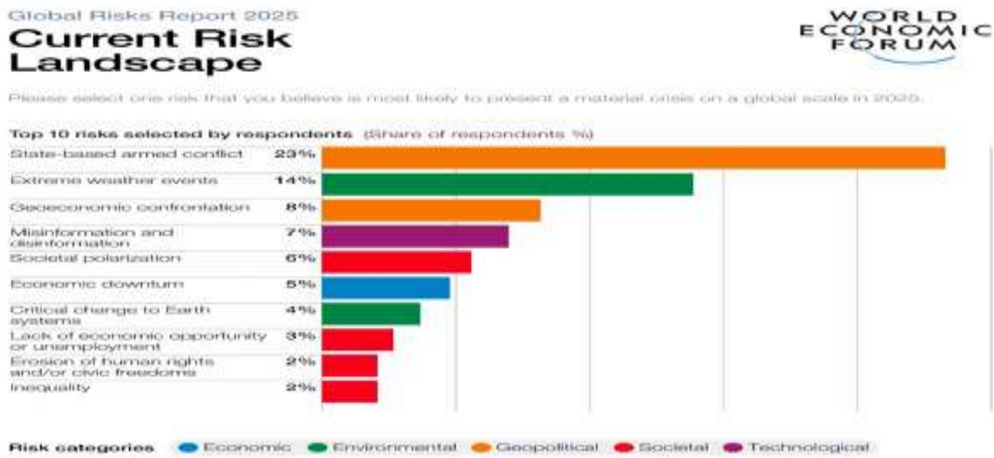
The feud between the United States and Iran has been going on for a long time since the Iranian revolution in 1979. This revolution brought about drastic changes in politics and international relations, where Iran, ended the era of Western domination and steered Iran on the path of confrontation with the United States (Tanbrani, 2016). The conflict between the United States and Iran has complex and layered historical roots, which have developed over more than a century (Rahman, 2019). In the 20th century, in 2026, this conflict will heat up again with the expansion of the conflict that tends to expand. The effect of this feud is not only targeting Middle Eastern countries, but has also reached the realm of global coverage. The geopolitical conditions of the world from period to period experience worrying conditions and can be felt by various countries, especially in Indonesia. This can be seen from *the Geopolitical Risk Index data (since 1985)* as follows:

4.2.1 Figure 7

Source : Macromicro, (2026)
Figure 7. Geopolitical Risk Index

Based on the data released in figure 7, in 2026 there will be an increase in the geopolitical risk index in Indonesia. In January 2026, the index was recorded at 0.07, then decreased in February, by 0.04. The latest data showed in March which recorded an index value of 0.10. This rapid increase in the geopolitical risk index occurred due to the conflict between the United States and Iran which is increasingly showing high intensity. This can lead to an increase in global risks that not only occur in the short term, but can be risky in the long term. Based on a global report released by *the World Economic Forum*, it states that there will be instability in the next 2 years, due to alarming geopolitical conditions. The following is data on the risks that can occur for now ("Global Risk Report 2025: Conflict, Environment, and Disinformation as Major Threats," 2025).

4.2.2 Figure 8

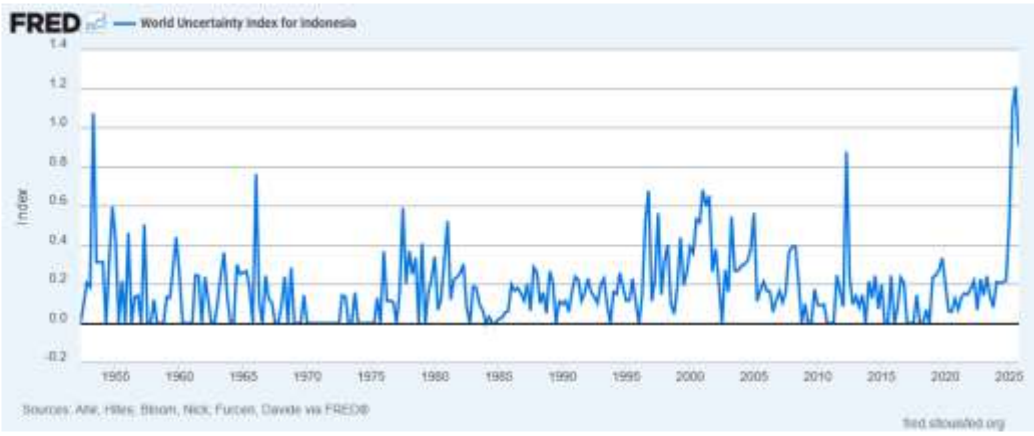


Source : *World Economic Forum*, 2024-2025
Figure 8. Global Risk Report 2025

Based on the global risk report that involved, 900 risk experts, policymakers and global industry leaders, predict worrying conditions in the next 10 years. Respondents surveyed in September and October 2024 tend to be more pessimistic about the long term than the short term. Geopolitical risk shows a high indicator with a percentage of 23%, followed by climate change and geoeconomic conditions at 14% and 8%. All of the risks identified showed an increase in severity over the long term, reflecting respondents' concerns that the frequency and intensity of these risks will worsen in the coming decade.

Geopolitical conditions are a pressure in the global space. Losses that do not only have an impact on material aspects but also non-material ones that have an impact on the benefit of humanity. Geopolitical conditions can cause economic uncertainty globally, where various countries have felt the impact, both developed and developing countries. This is due to the global energy crisis, due to the effect of the closure of the Strait of Hormuz which disrupts the distribution line of 20% of the world's oil supply. This energy crisis will directly cause an increase in energy prices, especially those related to the primary needs of the community. The following is data related to the economic uncertainty conditions in Indonesia:

4.2.3 Figure 9

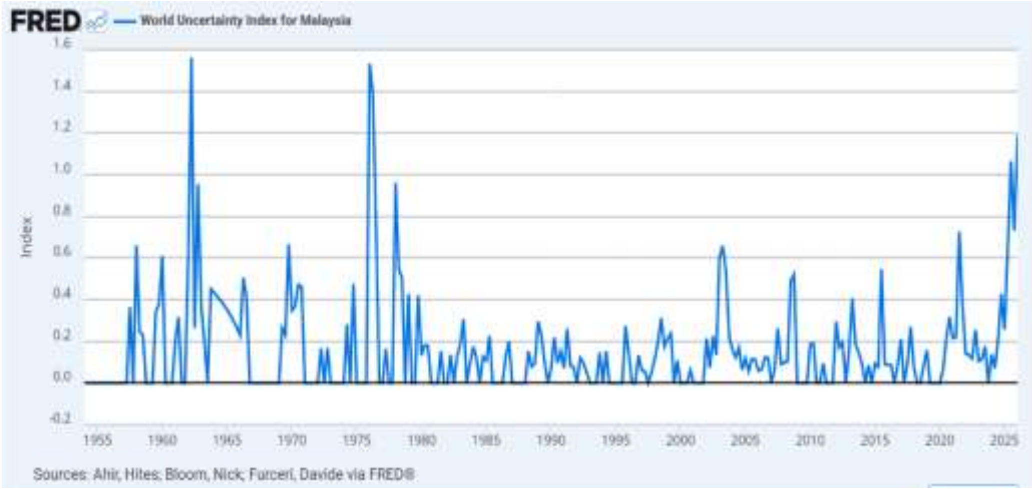


Source : fred.stlouisfed.org, (2026)

Figure 9. World Uncertainty Index in Indonesia

Based on what was released by the Fred website, the value of economic uncertainty in Indonesia in the 2026 period has fluctuated above 0.5, which indicates that economic uncertainty in Indonesia is high. This can happen due to various factors, one of which is geopolitical conditions that are not good. The escalating conflict in the Middle East is increasingly dangerous for the global economy, especially related to Inflation and economic growth. As a country with an open (developing) economy and dependent on electricity imports, Indonesia has an indirect link to the conflict. (Lituhayu et al., 2024).

4.2.4 Figure 10



Source : fred.stlouisfed.org, 2026

Figure 10. World Uncertainty Index in Malaysia

In addition, the same thing is also experienced by the State of Malaysia, which has an economic uncertainty index, of 1.19108 in Q1 of 2026, which is based on the fred website. Global economic uncertainty is a warning for the whole world, especially Malaysia, to maintain domestic financial stability from various external pressures that occur.

The main impact felt in Indonesia and Malaysia is the increase in world oil prices. Iran is one of the world's largest oil producing countries, while the United States has significant influence in the Middle East's oil-rich region. Conflicts between the two countries can disrupt the world's oil supply, both directly and indirectly, as it raises doubts and increased risks for investors and businesses in the oil industry. This is in line with research put forward by (Banurea et al., 2023), that a decline in foreign direct investment (FDI) and market uncertainty are also consequences of war, so economic uncertainty causes harm to the benefit of human beings.

4.3 Indonesia’s Inflation during the conflict between the United States and Iran

The increase in crude oil prices will cause a surge in the increase in consumer goods in Indonesia, which will indirectly increase production and operational costs, resulting in an increase in inflation in Indonesia. Indonesia's inflation in 2026 is likely to increase, which can be reviewed from Core Inflation, especially in 2026. Here are the data released by trading economics:

4.3.1 Table 2

Annual	*Inflation*

January	107.86
February	108.72
March	108.86
April	109.11
May	109.35

Source : Central Statistics Agency, (2026)

Table 2. Core Inflation in Indonesia

Based on data released by trading economics, it shows that Core Inflation data in Indonesia, which from month to month in the 2026 period is likely to increase. Core Consumer Sentiment in Indonesia averaged 92.20 points from 2007 to 2026, reaching an all-time high of 111.21 points in December 2022 and a record low of 63.40 points in December 2007. This can happen because the level of purchasing *power* of the community decreases. This decrease in purchasing power has resulted in *the supply and demand* of fulfilling consumer goods to be unstable. When prices rise, the demand side of the community will decrease. This is in line with research conducted by (Husnah, 2022), which outlines that inflation can have an effect on a decrease in purchasing power, economic instability and people's welfare.

1. Decrease in People's Purchasing Power

   Inflation leads to a decline in people's purchasing power, especially for fixed income groups, such as workers and retirees, who are unable to adjust their incomes to the rate of inflation. The value of money decreases, so people need to use more money than usual to obtain the same goods.

2. Economic Instability

   Inflation also creates uncertainty in the economy, disrupting investment planning and decision-making, and can cause instability in the financial market. Economic uncertainty can hamper investment due to future price uncertainty.

3. Decline in Community Welfare

   The most serious impact of inflation is the decline in people's welfare, especially for the poor and vulnerable, who are unable to maintain their purchasing power. Inflation can hurt fixed-income groups, such as retirees, because their incomes don't increase as prices rise.

4. Increase in Prices of Goods

   Inflation causes an increase in the price of finished goods, especially plastic. which requires the cost of imported raw materials. The increase in plastic prices in Indonesia based on kontan.id data jumped by 80% to 100%. This certainly makes it difficult for MSME traders to meet plastic stocks because the price is getting more expensive. If the increase in plastic prices occurs in a phased manner, it can reduce the economy for the household industry.

4.4 Malaysia's Inflation during the conflict between the United States and Iran

The important macroeconomic factor that is most concerned is related to inflation. Inflation is the most important impact on the economy, and one of the government's main fiscal goals is to control it. Inflation is the rate at which the general price of goods and services in the economy increases (Ramasamy and Abar, 2015). Inflation can be attributed to the depreciation of the value of the dollar, therefore consumers are ready to buy less than before (Mun et al., 2017). Inflation in Malaysia is relatively stable despite the conflict between the United States and Iran, in 2026. The following is Core Inflation data, released by trading economists in 2026.

4.4.1 Table 3

Annual	*Inflation (%)*
January	2,3
February	2
March	2,1
April	2

Sumber : Department of Statistic Malaysia, (2026)

Table 3. Core Inflation in Malaysia

The data released by the Malaysian Department of Statistics in 2026, shows the core inflation rate from January to April. Core consumer prices in Malaysia increased by 2 percent in April 2026 compared to the same month the previous year. The Core Inflation Rate in Malaysia averaged 1.87 percent from 2016 to 2026. High inflation tends to cause various negative effects, one of which is with increasing unemployment and declining economic growth of the community. In addition, based on data from Kompas.com, the impact of inflation also affects the increase in the price of goods, especially plastics by 40%. Plastic stocks that are starting to thin due to increasingly expensive prices, make people in Malaysia use cardboard packaging as an alternative. Based on research conducted by Mamo, (2012), that inflation can have a positive impact on economic growth.

Therefore, the government must tighten monetary policy by implementing a contraction policy, by maintaining the rupiah exchange rate so that inflation can be controlled. In developed countries, monetary policy is an important policy used to reduce inflation and stabilize economic activity. In addition, in a previous study conducted by Islam et al., (2017), the Malaysian government can use monetary policy to address high inflation in Malaysia.

4.5 Inflation control policies in Indonesia and Malaysia reviewed from an Islamic Perspective

In the face of the impact of the United States and Iran war on Inflation, it is important for Indonesia and Malaysia to adopt the right strategy. The various policies implemented must be carried out comprehensively and be able to have a positive impact on minimizing inflation in Indonesia and Malaysia. The implementation of inflation policy does not only prioritize conventional aspects, but must also prioritize Islamic principles and values. Inflation control strategies in an Islamic perspective can be codified through various policies implemented by the government. Some of the ways and solutions in Islam that can be implemented in determining policies from the government include:

a. Islamic Monetary Policy

The Government of Indonesia in controlling inflation implements policies through the optimization of Islamic monetary instruments. which includes Official Reserve Requirements (GWM), public shares for traded deposits (Giral Expenditure), growth objectives M and Mo, interest rate-based credit distribution, Bank Indonesia Syariah Certificate (SBIS), and Sharia Interbank Money Market (PUAS). Based on research conducted by (Rahma et al., 2024), especially in the SBIS instrument, the publication of SBIS by BI and the sale of SBIS to the public will reduce the JUB. With the decline in the JUB it is expected to result in a decrease in demand, which in turn leads to a decrease in inflation. Based on research submitted by Mahmud, (2024) states that the use of the Minimum Mandatory Current Account (GWM), the Sharia Interbank Money Market and the Bank Indonesia Syariah Deposit Facility can reduce the inflation rate in Indonesia.

In addition, the implementation of policies to control the rate of inflation in Malaysia by carrying out a dual monetary policy, through *dual instrument banking*. The focus of Malaysia's dual monetary policy is to maintain the stability of the Islamic finance market share against conventional financial markets (Muhit et al., 2024). Malaysia's central bank should seek to control the quantity and quality of debt, to help reduce inflation.

The implementation of monetary policy must be carried out wisely to avoid excessive money printing which will cause inflation to become higher. The aspect of financial management in the implementation of monetary policy is very necessary where currency management must meet the principles of fairness and openness (transparency). Money printing must be in accordance with real economic needs and not to cover budget deficits.

b. Islamic Fiscal Policy

According to Umer Chapra, fiscal policy aims to maintain economic stability, progress in the economy, and equitable distribution of income. This can be realized through the application of Zakat, the prohibition of the use of usury, the creation of investment in employment and the application of kharaj.

In Indonesia, the implementation of fiscal policy can be implemented through the implementation of al-kharaj or in this case the building land tax (PBB). The application of the United Nations is not only intended for agriculture, but includes all elements including the Company. Therefore, the creation of social or economic justice through the collection of land and building taxes, thereby minimizing excessive speculation. In addition, optimization in the zakat sector. Zakat can minimize inflation indirectly through income equalization, increased productivity, reduced asset accumulation, and strengthened community welfare. The implementation of fiscal policy can be carried out by investing in the employment sector with the aim of encouraging and assisting the economies of disadvantaged communities as well as advancing and expanding the spread of Islam as widely as possible (Luk Lu'us, 2024). Based on research conducted by Ridwan, et al. (2024), fiscal policy is very effective in controlling inflation, economic recovery, and increasing people's purchasing power.

Meanwhile, in Malaysia, control is through a fiscal policy that is modern taxation combined with zakat. Various modern tax policies in Malaysia include, personal income tax, corporate tax (24%), and *Goods and Services*. Zakat is integrated into the national fiscal system which is positioned as a tax deductible. The implementation of this scheme is able to realize social justice for the community and reduce the impact of inflation that occurs. (Mawftiq et al., 2025).

5. Conclusion and recommendations

The conflict between the United States and Iran has become a geopolitical threat to all countries in all parts of the world, including Indonesia and Malaysia. Geopolitical risks are also inevitable and have a holistic impact on all aspects of life, one of which is the economy. Economic uncertainty is a result of the current geopolitical risks. The factor causing economic uncertainty, due to the global energy crisis, where oil distribution routes through the Middle East, have been disrupted due to the closure of the Strait of Hormuz.

The closure of the Strait of Hormuz caused 20% of the world's oil supply to be delayed. This can cause a surge in world crude oil prices, so that it can indirectly increase the price of consumer goods due to increased production costs. This increase in production costs affects the increase in inflation or in this case called *cost center inflation*.

In Indonesia and Malaysia, the impact of the conflict between the United States and Iran is felt in various aspects, especially inflation. Based on geopolitical risk index data, there is an increase in risk this month, compared to the previous month in the first quarter of 2026. In addition, geopolitical risks that have increased will have an impact on productive sectors such as politics, economy, environment, social and technology. In the economic field, geopolitical risks will result in prolonged economic uncertainty and pose a risk of rising inflation. In Indonesia, inflation tends to increase by 3.08% in the first quarter of 2026. The same thing was also followed by Malaysia, which increased to 1.90% from the previous 1.40%. Therefore, it is necessary for the role of the government and related stakeholders to formulate strategic and solutive policies in order to be able to create economic stability in a compelling manner.

Various efforts to control inflation have been implemented by the governments of Indonesia and Malaysia. The policies implemented do not only focus on conventional aspects but are integrated with the applicable Islamic rules and principles with the aim of bringing benefits to all mankind. Control strategies can be applied through Islamic monetary and fiscal policies. Islamic monetary policy in Indonesia is carried out by optimizing Islamic monetary instruments and in Malaysia implements a dual monetary policy, both of which have an impact on reducing inflation. In terms of fiscal policy, in Indonesia it is carried out by applying taxes and zakat in a fair manner and in Malaysia it is done by integrating taxes and zakat, so as to reduce the impact of inflation and economic inequality in society. The proposed recommendation from this study is that the control strategies that have been implemented must be implemented comprehensively and sustainably so that they are effective in maintaining inflation stability in Indonesia and Malaysia.

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