Monetary Policy in Perspective Conventional Economy and Islamic Economics

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Abstract
This article describes the perspective of differences between monetary policy in conventional economics and Islamic economics. By using a negation approach, this study concludes that Islamic monetary policy offers an economic system that is more resistant to monetary crises because the Islamic monetary system does not use an interest rate system so that it can stabilize prices more and be able to control inflation compared to the conventional monetary system.

Keywords: Islamic Economics, Sharia Economy, Monetary, Islamic Monetary

JEL Classification: A10, B22, B26, E02, E44, E52, E58, F40

A. Background

Monetary systems throughout history have experienced many developments, this financial system is the most empirical and historical study conducted when compared with other economic disciplines. This monetary policy is an important factor in the economy. However, the prevailing economic system differences will have different views on monetary policy. Islam has its own monetary policy that is different from the conventional economic system. Where the rationale of monetary management in the concept of Islam is the creation of stability in the demand for money to important and productive goals. In the aspect of the goal of Islam, it not only suppresses the balance between money demand and supply but also strives for equality with the principles of justice and brotherhood, so as to create a fair distribution of wealth and income.

The study of monetary policy by Nur Aini Latifah (2015)[1], emphasizes that monetary policy aims to direct the macroeconomy to better and or desired conditions. These conditions are measured using the main macro indicators such as maintaining good economic growth, controlled general price stability, and decreasing the unemployment rate. The monetary policy objective is to achieve economic stabilization. The success or failure of the objectives of monetary policy is influenced by two factors, first: the strength or failure of the relationship between monetary policy and economic activity, second: the period of changes in monetary policy towards activities economy.

[1] Latifah, N. A. (2015). Kebijakan Moneter dalam Perspektif Ekonomi Syariah. *Jurnal Ekonomi Modernisasi*, *11*(2), 124-134. P. 124.

The study by Daniar (2016)[2] revealed that the mechanism of the sharia monetary policy instrument still needs to be redeveloped by using other contracts other than *wadiah* in SWBI and *ju'alah* in the SBSI. Furthermore, compared to other Islamic countries, Indonesia is one of the countries that has carried out sharia monetary policy instruments together with several other countries. However, when viewed from its progress, Indonesia is experiencing a slowdown compared to other countries.

While the study conducted by Luqmanul Hakiem Ajuna (2017)[3], revealed that the economic success of a country is largely determined by precisely the determination of monetary policy. This policy was created by a microeconomic response which was then managed by the macro stakeholders. The step in taking this policy must be in accordance with the sharia scenario so that the economy that is expected to grow will get a blessing so that the one who becomes the final destination of the economy is also realized as the policy is taken. The literature study was finally taken in order to find answers to the concept of essential monetary policy. The ultimate goal of discussing sharia economic policy is to maintain and maintain the country's economic stability.

This paper will analyze the perspective of monetary policy in conventional economics and Islamic economics. What is the difference between the concepts of monetary policy offered by conventional economics and Islamic economics? And how is the implementation of Islamic monetary policy in Muslim countries? By exploring the existing literature, this article will try to answer that question.

B. Literature Review

The study of monetary policy by Mugiyati (2008)[4], reveals that Islamic monetary management is in one package from Islamic economic concepts that differ significantly from conventional monetary management. Conventional economic monetary management that revolves around bank interest. Therefore, monetary policy instruments tend to open market operating utilities and changes in discount rates. Both instruments cannot be applied in the Islamic monetary system. The Islamic monetary system is free of interest whose monetary management relies on high control supported by money by applying the principle of profit and distribution of losses and financial intermediation. Therefore, the Islamic monetary system must use alternative monetary policy instruments such as quantitative credit allocation control and realization of socio-economic goals. The first instrument was supported by monetary instruments such as mandatory reserve requirements, credit ceilings, government deposits, moral appeal, and equity-based instruments. In addition, the second instrument including money instruments such as treating money is made as fai and goal-oriented credit allocation.

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[2] Daniar, M. A. (2016). Mekanisme Transmisi Kebijakan Moneter Syariah. *FALAH: Jurnal Ekonomi Syariah*, *1*(1), 90-102. P. 90.

[3] Ajuna, L. H. (2017). Kebijakan Moneter Syariah. *Al-Buhuts*, *13*(01), 104-117. P. 104.

[4] Mugiyati, M. (2008). Instrumen Kebijakan Moneter(Analisis Managemen Moneter Islami). *Al-Qanun: Jurnal Pemikiran dan Pembaharuan Hukum Islam*, *11*(2 Des), 417-435. P. 417.

In addition, another study of Islamic monetary policy by Hasan Kiaee (2007)[5] states that when we accept money and its functions within the framework of Islamic economics, as with all other economic systems, we must consider the monetary policy as an important tool available to the government for economic purposes macro pursuit. But the problem is increasing when we want to choose instruments to implement monetary policy. Because according to Sharia rules it is not permissible to use interest-based instruments on monetary policy within the framework of Islamic economics. Even though in reality, Islamic countries do not follow the basis of this theory and make extensive use of Islamic monetary policy, such as the Musyarakah certificate, in lieu of interest-based instruments. In this study provides a good explanation where the gap between theory and practice in monetary policy is the Islamic economic system. Comparing monetary aggregate and interest instruments based on various economic perspectives shows that when we choose a monetary policy based on sharia the results of stability in the goods market and money market are more stable and that is why in many Islamic countries such as the Islamic Republic of Iran.

Another study of Islamic monetary policy by Anita Rahmawaty (2013)[6] states that the concepts and functions of money in an Islamic economic perspective and analyze the role of money in monetary policy in Islam. This study is interesting to discuss because there are fundamental differences between the concepts and functions of money in the perspective of modern economics and Islamic economics. In Islam, money is a flow concept and public goods, while capital is a stock concept and private goods. Conversely, the concept of money in modern economics is often interpreted back and forth that money as money and money as capital. The presence of money in the economic system will affect the economy of a country, which is usually associated with monetary policy. However, differences in the prevailing economic system will have different views about money and monetary policy.

Previous studies only provide a description of the differences in the perspectives of monetary policy in conventional economics and sharia economics partially on a particular issue, therefore in this discussion, the author of the article will try to describe the concept of monetary policy in the perspective of conventional economics and financial economy. thoroughly.

C. Methodology

The study of monetary policy in the perspective of conventional economics and sharia economics was carried out using a literature review. Where the literature review is the main source, related to various studies that have been supported previously, and supported by the results of studies published by various institutions in the form of journals and other scientific studies. While the methodology used in this article is to use one of the three models of economic

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[5] Kiaee, H. (2007). *Monetary Policy in Islamic economic framework: Case of Islamic republic of Iran*. Teheran: Imam Sadiq University. P. 2.

[6] Rahmawaty, A. (2013). Uang dan Kebijakan Moneter dalam Perspektif Ekonomi Islam. *Jurnal Equilibrium*, *1*(2). P. 181.

Islamization, namely negation.[7] In the context of Islamic economics, not all conventional economic paradigms can be accepted into Islamic economics, even the most fundamental ones must be rejected and cannot be compromised with Islamic teachings, especially those related to interest (usury) in implementing monetary policy.

D. Discussion and Discussion

1. Conventional Monetary Policy

a. Definition of Monetary Policy

Monetary policy is the effort of monetary authorities, namely the Central Bank to influence the development of monetary variables in order to achieve economic goals.[8]

According to Iswardono, monetary policy is an integral part of macroeconomic policies aimed at supporting macroeconomic targets, namely high economic growth, price stability, equitable development and balance of payments.[9]

Whereas according to Boediono, monetary policy is the action of the government (or central bank) to influence the macro situation implemented through the money market. This is a general definition of monetary policy, more specifically, monetary policy can be interpreted as a macro action of the government, in this case, is the central bank by influencing the process of money creation.[10]

In Bank Indonesia Law No.23 of 1999 which has been amended in Law No. 3 of 2004 stating that monetary policy is a policy stipulated and implemented by Bank Indonesia to achieve and maintain the stability of the rupiah value, among others, through controlling the money supply and interest rates.[11]

According to Andi Soemitra, monetary policy is the process of regulating a country's money supply. Usually, the monetary authority is held by the Central Bank of a State, in other words, monetary policy is a central bank instrument that is deliberately designed in such a way as to influence financial variables such as interest rates and money supply levels. The goal to be achieved is to maintain the stability of the value of money for both internal and external factors. The stability of money values reflects price stability which in turn will affect the realization of the achievement of a country's development goals, such as meeting basic needs, distributing distribution, expanding employment opportunities, optimum real economic growth and economic stability.[12]

Similar to what was stated by Aulia Pohan in the Dictionary of Terms of Finance and Banking, monetary policy was defined by a coordinated plan and action of the monetary authority to maintain the monetary balance and stability of the value of money, promote smooth

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[7] Suharto, U. (2004). Paradigma Ekonomi Konvensional dalam Sosialisasi Ekonomi Islam. *dalam ISEFID Review*, *3*(3). P. 4.

[8] Bruce Litteboy and John Taylor. (2006). *Macroeconomics. 3RD Edition*. Australia: John Wiley & Sons Ltd. P. 198

[9] Iswardono. (1997). *Uang dan Bank.* Yogyakarta: BPFE. P. 126.

[10] Boediono. (2001). *Pengantar Ilmu Ekonomi No.2 Ekonomi Makro.* Yogyakarta: BPFE. P. 96

[11] Bank Indonesia. (2004). *Amandemen Undang-Undang Bank Indonesia.* Jakarta: Sinar Grafika. P.3.

[12] Soemitra, A. (2009). *Bank dan Lembaga Keungan Syariah.* Jakarta : Kencana. P. 11.

production and development and expand employment opportunities to improve people's lives. Thus it can be concluded that monetary policy is an instrument of macroeconomic policy which in this case is held by the central bank by regulating the supply of money, credit and interest rates in order to control the level of spending and or expenditure in the economy.[13]

b. Monetary Policy Objectives

Bank Indonesia aims to achieve and maintain the stability of the rupiah. This goal as stated in Law No. 23 of 1999 concerning Bank Indonesia, which as amended by Law No. 3 of 2004 and Law No. 6 of 2009 in article 7. The stability of the rupiah in question has two dimensions. The first dimension of stability in the value of the rupiah is the stability of the prices of goods and services reflected in the development of the inflation rate. Meanwhile, the second dimension is related to the development of the rupiah exchange rate against the currencies of other countries.[14]

In the context of the development of the value of the rupiah against other currencies, Indonesia adheres to a free-floating system. The role of exchange rate stability is very important in achieving price stability and the financial system. Therefore, Bank Indonesia also carries out a policy to maintain exchange rate stability to suit its fundamental values while maintaining the operation of the market mechanism.

In an effort to achieve this goal, Bank Indonesia since July 1, 2005, has implemented the inflation target inflation framework (ITF) framework. The policy framework is seen in accordance with the mandate and institutional aspects mandated by the Act. Within this framework, inflation is an overriding objective. Bank Indonesia has consistently carried out various improvements to the monetary policy framework, in accordance with changes in economic dynamics and challenges that occur, in order to strengthen its effectiveness.

Below are the objectives of doing Monetary Policy:[15]

1) Economic Stability

Economic stability is a condition in which economic growth takes place in a controlled and sustainable manner. That is, the growth of goods/services flows and money flows are balanced.

2) Job Opportunities

Job opportunities will increase if production increases. Increased production is usually followed by an improvement in the fate of employees in terms of wages and workplace safety. Wage and work safety improvements will improve the living standards of employees and ultimately prosperity can be achieved.

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[13] Pohan, A. (2008). *Potret Kebijkan Moneter Indonesia.* Jakarta: Rajawali Pres. P.11.

[14] Bank Indonesia. *Tujuan Kebijakan Moneter*. https://www.bi.go.id/id/moneter/tujuan kebijakan/Contents/Default.aspx. Diakses pada tanggal 20 Juni 2019 pada pukul 22.06 WIB.

[15] Subandi. (2014). *Sistem Ekonomi Indonesia*. Bandung: AlfaBeta. P. 91.

3) Price stability

Price stability is characterized by the stability of the price of goods from time to time. Stable prices cause people to believe that buying goods at the current price level is the same as the future price level or the purchasing power of money over time is the same.

4) International Balance of Payments

Balance of payments can be said to be balanced if the amount of the value of goods exported is equal to the value of the goods imported. To get a balanced balance of payments, the government often carries out monetary policy. An example is by doing a devaluation.

c. Types of Monetary Policy[16]

1) Monetary Expansive Policy

Expansive monetary policy is a policy in order to increase the amount of money in circulation. This policy is carried out to overcome unemployment and increase people's purchasing power (community demand). This policy is applied when the economy experiences a recession or depression.

This expansionary monetary policy is also called the easy monetary policy. Implementation of this policy such as:

a) Discount politics (reduction in interest rates)
b) Open market politics (purchase of securities, such as stocks and bonds).
c) Political cash ratio (decrease in cash reserves)
d) Selective credit politics (loose credit)

2) Monetary Contractive Policy

Contractive monetary policy is a policy carried out in order to reduce the amount of money in circulation. This policy is carried out when the economy experiences inflation. Contractive monetary policy is also called tight money policy. This policy can be applied in the form of:

a) Discount politics (increase in interest rates)
b) Open market politics (sale of securities)
c) Political cash ratio (increase in cash reserves)
d) Selective credit politics (tightening crediting)

d. Conventional Monetary Policy Instruments

There are three main monetary policy instruments that are used to regulate the money supply, namely open market operations (open market operations), discount facilities (discount rate), and mandatory reserve ratio. Apart from these three instruments (which are quantitative monetary policy), the government can make a moral appeal.[17]

[16] Sahid. (2008). *Pengantar Ilmu Ekonomi Makro Kebijakan Moneter dan Fiskal.* Bandung: Sinar Press. P.75.

[17] Rahardja, P. dan Manurung, M. (2008). *Pengantar Ilmu Ekonomi.* Jakarta : Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia. PP. 435-437.

1) Open Market Operation

Open market operations are a way of controlling money circulating by selling or buying government securities. If you want to increase the money supply, the government will buy government securities. However, if you want the amount of money in circulation to decrease, the government will sell government securities to the public. Government securities, among others, include SBIs or abbreviations of Bank Indonesia Certificates and SBPUs or abbreviations for Money Market Securities.

In Indonesia, open market operations are carried out by selling or buying Bank Indonesia Certificates (SBI) and Money Market Securities (SBPU). If the government wants to reduce the money supply, the government sells SBIs and/or SBPUs. Through the sale of SBI / SBPU, the money in the community is withdrawn, so the money supply is reduced. Usually, the sale of SBI / SBPU is carried out if the money supply is considered to have disrupted the stability of the economy.

2) Discount Rate

A discount facility is a regulation of the amount of money in circulation by playing a central bank's interest rate at a commercial bank. To make the amount of money increase, the government decreases the interest rate of the central bank and conversely raises the interest rate to reduce the money supply.

Under certain conditions, banks experience a shortage of money, so they have to borrow from the central bank. This need can be utilized by the government to reduce or increase the money supply.

If the government wants to increase the money supply, the government decreases the loan interest rate (discount rate). With a cheaper loan interest rate, the desire of banks to borrow money from the central bank becomes larger, so the money supply increases. Conversely, if the government wants to increase the rate of increase in the money supply, the government increases the interest on loans. This will reduce the desire of banks to borrow money from the central bank so that the increase in the money supply can be reduced.

3) Reserve Requirement Ratio

The mandatory reserve ratio is to regulate the amount of money in circulation by playing the amount of banking reserve funds that must be deposited with the government. To increase the amount of money, the government lowered the required reserve ratio. To decrease the money supply, the government raised the ratio.

Determination of the required reserve ratio can also change the money supply if the reserve ratio must be enlarged, then the ability of banks to provide credit will be smaller than before. For example, if the mandatory reserve ratio starts at only 10%, then for each unit of deposit received, banks can channel loans of 90% of deposits received by banks. Thus the money multiplier number of the banking system is 10.

If the reserve ratio must be enlarged to 20%, then for each unit of deposit received, the banking system can only channel loans of 80%. The multiplication rate of money from the banking system decreases to 5, thus the money supply in the community will decrease. The opposite happens if the government reduces the mandatory reserve ratio. Because the decrease in the ratio will increase the multiplication rate of money, which means it will increase the money supply.

For the first time since the 1988 Pact, Bank Indonesia used the ratio of compulsory reserves to halt high monetary growth which is still high, namely by setting the ratio to 3% in February 1996 (the previous stipulation according to Pakto 1988 was 2%). Since April 1997 the amount of the required reserve ratio is 5%.

4) Moral Appeal (Moral Persuasion)

The moral appeal is a monetary policy to regulate the money supply by giving an appeal to economic actors. Examples include calling on lending banks to be careful in issuing a credit to reduce the money supply and to urge banks to borrow more money to the central bank to increase the money supply to the economy. With the moral appeal, the monetary authority tries to direct or control the amount of money in circulation.[18]

2. Islamic Monetary Policy

a. Principles of Monetary Policy in the Sharia Economy

Monetary policy has the meaning of government macro action through the central bank by influencing money creation. By influencing the money creation process, the government can influence the money supply, which in turn the government can influence investment expenditure, then influence aggregate demand and ultimately the price level so that economic conditions are created as desired.[19]

Monetary policy in Islam rests on the basic principles of Islamic economics as follows:[20]

1) Supreme power belongs to God and Allah is the absolute owner.
2) Humans are leaders (caliphs) on earth, but not the real owners.
3) All that is owned and obtained by humans is because of the permission of God, and therefore his brothers who are less fortunate have rights to some of the wealth of his more fortunate brothers.
4) Wealth should not be stacked or piled up.
5) Wealth must be rotated.
6) Eliminating the gap between individuals in the economy can eliminate conflicts between groups.

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[18] Sahid. (2008). *Pengantar Ilmu Ekonomi Makro Kebijakan Moneter dan Fiskal*. Bandung : Sinar Press. P. 70.

[19] Budiono. (2001). Seri Sinopsis, *Pengantar Ilmu Ekonomi*. Yogyakarta: BPFE. P. 96.

[20] Karim, A. A. (2001). *Sejarah Pemikiran Ekonomi Islam*. Jakarta: IIIT. P. 28.

7) Establish obligations that are mandatory and voluntary for all individuals, including for poor members of society.

In the technical aspect, the Islamic monetary policy must be free from the element of usury and bank interest. In usury Islam which includes bank interest is strictly forbidden. With the existence of this prohibition, bank interest in the capitalist economy becomes the main instrument of monetary management becomes invalid. Monetary management in Islam is based on the principle of profit sharing.[21]

b. Objectives of Sharia Monetary Policy[22]

To achieve or guarantee the proper functioning of the monetary system, usually, the monetary authority supervises the entire system. This is because money is not a simple veil. The monetary sector is an important network and influences the real sector. Monetary policy is an important instrument of public policy in the economic system. Monetary policy in Islam aims;[23]

1) Economic welfare with full employment opportunities

This goal is closely related to *Maqosid Syariah*. Economic welfare takes the form of fulfilling all basic human needs, removing all the main sources of difficulties and improving the quality of life morally and materially. Also the creation of an economic environment where *khalifah* Allah is able to use time, physical and mental abilities for enrichment of self, family, and society.

Welfare is not maximizing wealth and consumption for oneself regardless of others, or for certain groups and ignoring other groups. Humans live in the world as the caliph of Allah on earth. The available resources are for all humans. Therefore the use of resources by individuals is legitimate, but limited in such a way does not endanger social happiness and goodness.[24] Even bring good for the social environment. The use of resources must consider Islamic values which include (a) Material prosperity must not be achieved through the production of goods and services that are not essential and morally questionable. (b) It is not permissible to widen the social gap between the rich and the poor. (c) may not cause harm to current or future generations by damaging the physical and moral environment.[25]

2) Socio-economic justice and distribution of income and wealth.

Justice is putting something in the real place. This concept contains two elements of understanding. (a) a form of balance and comparison between people who have rights. (b) A person's right should be given and submitted carefully.[26] The values of justice are based on the principle of equality and brotherhood. Every individual has the same right to gain wealth in

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[21] Meilina, S., *et. al*. (2017). *Kebijakan Moneter Dalam Ekonomi Islam.* Pekalongan : IAIN Pekalongan. PP. 6-7.

[22] Wahyudi, A. (2013). Kebijakan MOneter Berbasis Prinsip-Prinsip Islam. *Justicia Islamica*, *10*(1). PP. 62-66.

[23] Manan., M. A. (1997). *Teori dan Praktek Ekonomi Islam.* Yogyakarta: Dana Bhakti Wakaf. P. 214

[24] Rohman, A. (1997). *Doktrin Ekonomi Islam*. Yogyakarta: Dana Bhakti Primayasa. P. 51.

[25] Chapra, U. (2000). *Sistem Moneter Islam*. Jakarta: Tazkia Cendikia. P. 3.

[26] Siddiqi, M. N. (1996). *Kegiatan Ekonomi Islam*. Jakarta: Bumi Aksara. P. 45.

increasing the welfare of his life without distinguishing race and class and other differences. Brotherhood means that each individual is a brother. They are creatures of God and must love each other.[27] However, justice is not generalization in the distribution of wealth. This is because each individual has differences that allow for the acquisition of wealth. It is also not the maximum mastery of wealth and maintaining wealth for oneself as a reflection of the right to his labor.

This justice reflects, that material rewards must be given fairly for the hard work of creativity and the contribution given to output. Wealth is indeed the result of individual efforts, but in that wealth, there are rights of others. Wealth must, therefore, be distributed to those who have rights. Regarding this goal, central bank arrangements must be a realist and reduce the concentration of wealth and power in the hands of a few people.[28]

3) Stability of the Value of Money.

The stability of the value of money has a major influence on economic life both ideologically and practically because money determines the value and price of goods and services.[29] The lack of determination of money results in damage to the economy, because the economic order is based on the principle of supply before demand, so forecasting a price can be difficult.[30] The lack of determination of the value of money which is more in the form of inflation than deflation shows that money cannot function as a fair and correct unit of calculation, and causes economic actors to behave unfairly towards other actors without realizing it, by decreasing monetary assets without their knowledge. Inflation exacerbates the climate of uncertainty in which economic decisions are taken, raises concerns about capital formation and causes misallocation of resources. And it even tends to damage moral values because it gives rewards to speculation efforts which ultimately inflict losses on productive activities and exacerbate income inequality.[31]

The stability of the value of money is a top priority in Islamic monetary management activities. The stability of the value of money reflected in the stability of the price level greatly influences the realization of the achievement of a country's economic development goals such as; fulfillment of basic needs, equal distribution of income and wealth, the optimum level of real economic growth, expansion of employment opportunities and overall economic stability.[32]

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[27] Tara, M. A. D. (2000). *Strategi Pembangunan Ekonomi Kerakyatan*. Jakarta: Nuansa Madani. P. 4.

[28] Chapra, U. (2000). *Islam dan Pertumbuhan Ekonomi.* Jakarta: Gema Insani Press. P. 87.

[29] Saud, M. A. (1996). *Garis-Garis Besar Ekonomi Islam.* Jakarta: Gema Insani Press. P. 38.

[30] Saud, M. A. (1996). *Garis-Garis Besar Ekonomi Islam.* Jakarta: Gema Insani Press. P. 39.

[31] Chapra, U. (2000). *Sistem Moneter Islam*. Jakarta: Tazkia Cendikia. P. 5.

[32] Siregar, M. (2001). *Menejemen Moneter Alternatif, dalam Dinar Emas- Solusi krisis Moneter.* Jakarta: Sirac. SEM Institud. Infid. P. 89.

c. Sharia Monetary Management

Monetary policy in Islamic economics has several objectives as formulated by Iqbal and Khan including:[33]

1) Economic well-being with full employment and optimum rate of economic growth.
2) Socio-economic justice and equitable distribution of income and wealth.
3) Stability in the value of money.

This can be explained that socio-economic justice and equitable distribution of income and welfare are important goals within the framework of Islam. While the first and third objectives are actually the same as the goals formulated by conventional economists. However, in conventional economics, it does not emphasize the existence of socio-economic justice and the equitable distribution of income and welfare.

An interesting question to study, can Islamic monetary management be applied in Indonesia? In my opinion, Islamic monetary management is possible to be implemented in Indonesia, because under Law No. 21 of 2008 concerning Sharia Banking that Islamic banking can run its business activities based on sharia principles and based on Law No. 3 of 2004 Jo. 23 of 1999 Bank Indonesia can implement monetary policy based on sharia principles.[34]

Along with that, BI as the central bank has issued information on Bank Indonesia Regulations for Commercial Banks based on profit sharing principles, namely concerning Statutory Reserves (GWM), clearing, Interbank Money Markets based on sharia principles, Mudharabah Investment Certificates between Islamic Banks (IMA Certificate) and Bank Indonesia / SWBI Wadi'ah Certificate. This is now the central bank monetary instrument in Indonesia.[35]

d. Islamic Monetary Policy Instruments

Islamic monetary policy instruments can be grouped into two major groups. First, quantitative control on credit distribution, and secondly realize socio-economic goals.[36]

1) Quantitative control on credit distribution

Quantitative controls on credit distribution can be as follows:

a) Statutory reserve requirement

In Islamic economics, this is an important instrument, because discount rates and open market operations cannot apply. Commercial banks are required to place a portion of their funds from the demand deposit at the central bank as a statutory reserve. This Reserve Requirement applies only to demand deposits, not to *mudharabah* deposits. This is because *mudharabah*

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[33] Muhamad. (2002). *Kebijakan Fiskal dan Moneter dalam Ekonomi Islam.* Jakarta: Salemba Empat. P. 16.

[34] Rahmawaty, A. (2013). Uang dan Kebijakan Moneter dalam Perspektif Ekonomi Islam. *Jurnal Equilibrium*, *1*(2). PP. 197-198.

[35] Muhamad. (2002). *Kebijakan Fiskal dan Moneter dalam Ekonomi Islam.* Jakarta: Salemba Empat. P. 176

[36] Mugiyati, M. (2008). Instrumen Kebijakan Moneter(Analisis Managemen Moneter Islami). *Al-Qanun: Jurnal Pemikiran dan Pembaharuan Hukum Islam*, *11*(2 Des), 417-435. PP. 430-433.

deposit is equity of savers at the bank where it is possible to have profit or risk of loss. This system will be good if supported by good bank supervision.[37]

b) Credit Ceiling

That is the highest credit value limit that commercial banks can provide to ensure that total credit creation is in accordance with monetary targets. By only relying on reserve requirements that make it easier for the Central Bank to adjust to high powered money, it cannot guarantee the success of monetary management, because credit expansion can occur beyond the targeted amount. This happens because the flow of funds that can be estimated correctly can only be included in the banking system that comes from the central bank's settlement with commercial banks. While the flow of funds from other sources included in the banking system is difficult to determine accurately.

What also influences is the unclear relationship between the reserve requirements at commercial banks and credit expansion. In short, the behavior of the money supply reflects interaction as a complex internal and external factor, so it is best to set a credit ceiling.[38]

c) Demand Deposit

To influence reserves in commercial banks, the government has the authority to transfer government demand deposits to the Central Bank to and from commercial banks. This instrument has a function similar to the function of open market operations, where the Central Bank directly affects commercial banks.[39]

d) Common pool

That is an instrument that requires commercial banks to set aside a portion of the deposit they control in a certain proportion based on a mutual agreement to overcome liquidity problems. This instrument has a similar function with a conventional discount bank facility for solving liquidity problems.[40]

e) Moral suasion

Namely personal contacts, consultations and meetings of the Central Bank with commercial banks to monitor the strengths and problems faced by commercial banks. With this instrument, the Central Bank can clearly and precisely provide advice to overcome problems faced by banks so that it will facilitate the achievement of planned banking goals.[41]

f) Equity Base Instructions

Equity Base Instruments are instruments based on participation. This instrument is recommended for several reasons. First, the purchase and sale of shares of public sector companies do not cause objections. Secondly, it does not require government securities in depth. Third, the variation in the price of equity-based instruments issued by the Central Bank in open market operations does not require profits or penalties from shareholders. Fourth, the possibility

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[37] Muhammad. (2002). *Kebijakan Fiskal dan Moneter dalam Islam.* Jakarta: Salemba Empat. P. 167.

[38] Chapra, M. U. (2000). *Sistem Moneter Islam.* Jakarta: Tazkia Cendikia. P. 145

[39] Muhammad. (2002). *Kebijakan Fiskal dan Moneter dalam Islam.* Jakarta: Salemba Empat. P. 167.

[40] Siregar, M. (2001). *Menejemen Moneter Alternatif, dalam Dinar Emas- Solusi krisis Moneter.* Jakarta: Sirac. SEM Institud. Infid. P. 101.

[41] Siregar, M. (2001). *Menejemen Moneter Alternatif, dalam Dinar Emas- Solusi krisis Moneter.* Jakarta: Sirac. SEM Institud. Infid. P. 101.

of rising share prices purchased by the Central Bank from shareholders can lead to acts of corruption, especially when they fundamentally disagree.

2) Realizing the Socio-Economic Goals

a) Treating The Created Money as Fai '

Namely, the core money created by the Central Bank comes from the implementation of its prerogatives. This brings benefits to the central bank because the costs incurred to create money are smaller than the nominal value, otherwise known as money seignorage. Therefore, with the existence of these strategic entities, it is only natural that the Central Bank set aside funds as fai'or taxes, which are mainly used to finance projects that can improve the socio-economic conditions of the poor and can reduce the inequality of income and wealth distribution. The government may not use these funds to finance projects that only benefit the rich. With this instrument, the allocation of funds can be justified in distributing it to useful and productive activities.

b) Goal Oriented Allocation of Credit

Allocation of bank financing based on utilization objectives will provide optimal benefits for all business people, also will produce goods and services that can be distributed to all levels of society. In fact, this is difficult. This is because the funds that can be collected by public banks mostly come from small savers, but the utilization in the form of credit is more focused on large entrepreneurs.

The reluctance of banks to extend credit to small businesses is due to the presence of higher risk and greater expenditure in financing. As a result, small businesses are very difficult to obtain financing from banks. Even if the bank is willing to provide funds for financing small businesses, it is accompanied by a variety of requirements that write they are mainly guaranteed requirements. With these conditions, it can be estimated that the growth and sustainability of small businesses will be threatened, although basically small businesses can potentially expand employment opportunities, generate production and improve income distribution.

To overcome this, there is a need for a guarantee scheme for banks to participate in financing productive businesses that do not violate Islamic values. Through this guarantee scheme, the bank is not required to request collateral from the company submitting the application for financing. In this case, the bank faces a challenge from the financing it does, namely the company financed fails in its business. If the failure is due to a moral deviation, the bank will get the funds back. However, if the failure is due to poor economic conditions, the bank must share the risk.

e. Implementation of Sharia Monetary Policy in Muslim Countries[42]

Below, there are several applications of monetary policy instruments in various countries, including:[43]

1) Sudan

In the period before the establishment of Islamic sharia in the banking system in Sudan, the Sudanese Central Bank was very dependent on direct instruments such as interest rates, credit ceilings, statutory liquidity ratios, and discount rates. In 1984, after being introduced to Islamic sharia in Sudan. The Sudanese Central Bank issued directives and orders to all banks operating in Sudan in order to carry out banking principles in accordance with Islamic sharia in their daily activities. As a result, the Sudanese Central Bank is faced with the problem of substituting conventional monetary instruments with instruments that are in accordance with Islamic sharia to be able to maintain its role as supervisors and directors for banks, to expand or contract money or credit offers, and to implement monetary policy, and while protecting the public interest.

The monetary instruments used by the Sudanese Central Bank in their operations are as follows:[44]

a) Reserve Requirement. RR at least 20% (10% for foreign currency deposits).
b) Commercial banks must achieve and maintain a liquidity ratio of 10% of demand deposits and savings funds in the form of local currency.
c) Credit ceilings for priority sectors at:
   - Agriculture
   - Export
   - Industry
   - Mining and Energy
   - Transportation and Warehousing
   - Professionals, Craftsmen, and small family businesses
   - Public Housing
   - Investment in the official Khartoum stock market.
d) Murabahah minimum profit margin of 10% -15%.
e) Minimum customer participation for the Musyarakah agreement as a tool to regulate the number of available resources for credit.
f) Qualitative and quantitative credit rules such as:
   - Minimum 50% of the credit is given to rural areas.
   - Credit is not given to people or institutions that failed before.
   - All loans must be ensured to meet sharia requirements.

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[42] Meilina, S. *et. al*. (2017). *Kebijakan Moneter Dalam Ekonomi Islam.* Pekalongan : IAIN Pekalongan. PP. 9-11.

[43] Al Arif, M. N. R. (2010). *Teori Makroekonomi Islam Konsep, Teori, dan Analisis*. Bandung: Alfabet. P. 146.

[44] Al Arif, M. N. R. (2010). *Teori Makroekonomi Islam Konsep, Teori, dan Analisis*. Bandung: Alfabet. P. 146.

g) Foreign Exchange Operation as a tool for the Sudanese Central Bank to maintain the stability of the exchange rate (not for the liquidity control function).
h) Open Market Operation using instruments:
   - Central Bank Musharaka Certificates (CMC).
   - Musharaka Government Certificate (GMC)
i) Certificate (Sukuk). This Sukuk represents three basic agreements:
   - Asset purchase agreement.
   - Lease agreement.
   - Agreement on sale of assets.

2) Iran

Iran is the only Islamic country that applies the economic system by referring to the Islamic economic theory of the Iqtishaduna School. Many modifications made by the Iranian monetary authorities to the banking system to remain competitive in this era of global competition. The following instruments are used:[45]

a) Reserve Requirement Ratio. Reserve ratios from 10% to 30%, usually used to attract budgeted funds that can potentially be used in increasing liquidity.
b) Adjusted Open Market Operations.
c) Discount Rates. Because of the prohibition of usury, this instrument is not used as widely as conventional. Discounting occurs in securities based on real transactions.
d) Credit Ceiling.
e) Minimum Expected Profit Ratio of Banks and Bank's Share of Profit in Various Contracts.

3) Indonesia

Bank Indonesia in carrying out the functions of its central bank has sharia monetary instruments including:[46]

a) Minimum Required Current Account. In its implementation, the Statutory Reserves are 5% from third parties in the form of rupiahs and 3% in the form of foreign currencies.
b) Inter-Islamic Sharia Mudharabah Investment Certificate (IMA Certificate). An IMA certificate is an instrument used by Islamic banks that have excess funds to make profits and on the other hand as a means of provider and short term for Islamic banks that lack funds.
c) Bank Indonesia - SWBI Wadiah Certificate (now a Bank Indonesia Syariah-SBIS Certificate). SWBI is a Bank Indonesia (BI) instrument that is in accordance with the Islamic Sharia used in OMO. In addition, this SWBI can also be used by Islamic banks that have excess liquidity as a means of depositing short-term funds.
d) Islamic Interbank Money Market (PUAS). As a facility for Islamic banks that need funds in the money market, so they can enter into mutual agreements between Islamic banks.[47]

[45] Al Arif, M. N. R. (2010). *Teori Makroekonomi Islam Konsep, Teori, dan Analisis*. Bandung: Alfabet. P. 147.

[46] Al Arif, M. N. R. (2010). *Teori Makroekonomi Islam Konsep, Teori, dan Analisis*. Bandung: Alfabet. P. 148.

Discussion

Based on the study of Zaini Ibrahim (2012)[48], states that in the monetary economic system (finance) that flows in a country will affect the pace of the economy. Monetary economics can be applied in a policy called monetary policy. In a conventional discussion, monetary policy is carried out to achieve an increase in national income, to stabilize market prices, and control the inflation rate. To obtain these macroeconomic objectives, interest rates are used where it becomes a weakness of the conventional monetary system, the use of interest rates subsequently has caused an economic crisis, even the global financial crisis Regarding the needs of the new economic system, the Islamic monetary system offers a solution to overcome the financial crisis. The systems offered are asset-based, interest-free transactions, avoid transactions that contain speculation and uncertainty. Furthermore, he also uses stable currencies, namely dinars and dirhams. The author agrees with the study of Zaini Ibrahim that the Islamic monetary system offers a solution to overcome the global financial crisis in which the Islamic monetary system does not use an interest rate system so that it can better stabilize prices and be able to control the inflation rate.

E. Conclusion

Monetary policy is basically a policy that aims to achieve internal balance (high economic growth, price stability, equitable development) and external balance (balance of payments balance) and the achievement of macro objectives, namely maintaining economic stability that can be measured by employment opportunities, stability balanced prices and international balance of payments. If stability in economic activities is disrupted, monetary policy can be used to restore (stabilization measures). In Islamic economic perspectives, monetary policy has its own characteristics that are different from conventional economic systems. In terms of the objectives of Islamic economics, it not only emphasizes the balance between money demand and supply but also seeks equal distribution with the principles of justice and brotherhood, so that a fair distribution of wealth and income is created. Whereas in the aspect of management, with the ineffectiveness of interest, Islamic economics has a large difference with conventional systems, and indirectly, avoids the adverse effects of the interest system, namely the existence of a monetary crisis. With the implementation of sharia monetary policy, the threat of a monetary crisis can be avoided or eliminated.

[47] Al Arif, M. N. R. (2010). *Teori Makroekonomi Islam Konsep, Teori, dan Analisis*. Bandung: Alfabet. P. 144-148.

[48] Ibrahim, Z. (2015). Kontribusi Perbankan Syariah Terhadap Perekonomian Banten. *ISLAMICONOMIC: Jurnal Ekonomi Islam*, *6*(1). P. 141.

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