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Development of Sharia Monetary Policy in the Indonesian Economic System (Study of Islamic Bank Interest Monetary Policy)

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A B S T R A C T

Monetary policy issued by the central bank is useful for realizing the economic aspirations expected by a country, namely realizing and maintaining the stability of currency values. Monetary policy in the definition of Islam adheres to the basic principles of Islamic economics, namely having the highest power to Allah SWT, where everything that is owned by humans on earth is with the permission of Allah SWT. The purpose of this study is to explain the development of Islamic monetary policy in the Indonesian economic system. This study uses the literature review method, which examines theories related to the problems in this research. Literature review is done through data collection or relevant journals.

INTRODUCTION

The economic development of a country will definitely be affected by price stability and the value of money (Hubara, Nurrahma, & Jannah, 2021). The central bank needs to carry out an idea or policy to improve a country's economy. The central bank in Indonesia, commonly called Bank Indonesia, also issues a policy called monetary policy. This policy is one of the policies issued by the central bank to achieve economic goals, such as stability in currency values and increased economic growth. Not only monetary policy in general, in Indonesia there is a monetary policy that is seen from the point of view of Islam. Monetary policy in the definition of Islam adheres to the basic principles of Islamic economics, namely having the highest authority to Allah SWT.

The Islamic monetary economic system is an economic system that has the goal of achieving justice and prosperity. Maqashid Syariah upholds

justice (Iqamah al 'Adl) namely achieving justice in all sectors of human life that creates benefit (Jalb al Maslahah), namely creating general benefit not because of benefit that is specific to certain parties.

The performance of Islamic Commercial Banks (BUS) is one of the banks that is considered superior compared to other conventional financial institutions, as evidenced by Bank Muamalat which was still able to function in the era of the 1997 monetary crisis even after all banks fell because they did not receive financial support from the government (Karim, 2013). Islamic banking must thus be reckoned with as a distinct type of financial institution.

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In this situation, equity in the monetary sector will have an impact on the economy as a whole. Economic harmony will have an impact on Islamic Bank funding and on economic growth.

In Indonesia, the growth of the Islamic financial system is accelerating. This is indicated by the progress of Islamic financial instruments, increased performance, and increased public support for Islamic banking (Asnuri, 2015).

The stronger the Islamic financial system, the more funds can be channeled through Islamic banking. Judging from the growth in Islamic bank financing which has an impact on meeting internal needs and more and more people choose to export goods abroad. Thus, this study aims to clarify how Indonesia's Islamic monetary policy affects the country's economy.

METHOD

The method used in this research is a literature review method which contains theories related to the problems in the research. Literature review is carried out through data collection or journals related to research problems with the aim of research objects being studied and solving problems based on critical and advanced studies of relevant literature materials (Hughes, 2008).

The problems contained in this study are to examine the application of Islamic monetary economic policies in the Indonesian economic system. In this research, a study will be carried out on the concepts and theories used in accordance with the literature found, especially in published journals.

RESULTS AND DISCUSSION

Discussion

Monetary Policy at the Time of the Prophet

At the time of the Prophet, the economy of Saudi Arabia was not a backward economy that only knew barter, but was even better from that view. In that era, many things have happened regarding the economy, namely:

1. Dinars and dirhams are still used as legal tender in Saudi Arabia, although all walks of life are aware of the existence of ancient Persian and Roman foreign currencies.
2. Build a free exchange system that is not limited to the import of dinars and dirhams
3. Merchant acceptance of non-cash transactions.
4. Umar bin Khattab imported fresh produce from Egypt to Medina using promissory notes and checks as tools
5. Factoring or hiwalah is a practice that does not involve usury

At that time, if the money received increased, dinars and dirhams would be imported. However, if the money received decreases, the commodity goods imported also decrease. This situation causes the demand for and supply of money to stabilize. The monetary policy implemented by the Prophet was always related to the real sector.

Principles of Sharia Monetary Policy

Sharia monetary policy is principled on the basis of Islamic economics (Wahyudi, 2013), such as:

1. The supreme power belongs only to Allah SWT.
2. Humans as caliphs on earth, not owners of the earth.
3. All that is obtained by humans because of the permission of Allah SWT.
4. Wealth is not allowed to be hoarded.
5. Acquired wealth must rotate.
6. Neglects differences between individuals in the economy.
7. There are obligatory and voluntary obligations for all individuals.

Riba, or interest on bank loans, is prohibited in Islam, so a profit-sharing system is used as the basis of Islamic monetary management.

Sharia Monetary Policy Tool

The following are the four main policy tools used to regulate the money supply:

1. *Open market operations*is a condition where the government controls the amount of money that can be accessed by selling or buying valuable government documents.
2. *Discount rate*is the interest rate determined

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by the government for commercial banks for guarantees to the central bank.

3. *Reserve requirement ratio*is the determination of the mandatory reserve ratio that can change the value of money in circulation.
4. *Moral persuasion*is an invitation to control the amount of money in circulation.

The fundamental objective of Islamic monetary policy is to maintain the stability of currency values both domestically and abroad so that the anticipated economic growth occurs evenly. The objective of money's honesty and transparency in its dealings with people is inextricably linked with the stability of its value.

The interest system is not allowed in the Islamic economy to prevent the central bank from implementing a discount rate policy. Islamic central banks require instruments that do not charge interest to manage monetary economic policy. Following are some examples of monetary policy instruments in Islamic economics:

1. *Reserverse ratio*is a percentage of bank savings that must be held by the central bank.
2. *Moral suassion*is an act of persuading other banks by the central bank to increase demand for credit as a liability when the economy is in a depressed state.
3. *Lending ratio*in Islamic economics does not exist, but is referred to as *Qardhul hasan*(good loan).
4. *Refinance ratio*is the value of the proportion of interest-free loans.

Sharia Monetary Application in Indonesia

In carrying out the functions of the central bank towards sharia-compliant commercial banks, there are the following instruments:

1. Statutory reserve requirement is a minimum deposit required by commercial banks in the form of demand deposits with Bank Indonesia, the amount of which is determined by the percentage of third party funds.
2. Midharabah investment certificates between Islamic banks are instruments that have more funds to gain profits from other parties as short-term funding facilities for Islamic banks that lack funds.
3. Bank Indonesia wadiah certificates are certificates from BI based on Islamic sharia used in OMOs. These certificates can also be used by Islamic banks that have excess liquidity as short-term fund deposit facilities.

In order to support the prospect of increasing spending in a stable pricing plan and other socio-economic goals, Islamic central banks must implement monetary policies that promote adequate money circulation.

Sharia Monetary Policy Study in Indonesia

Monetary policy seeks to regulate macroeconomic conditions so that they can function as desired. Apart from increasing the expenditure balance, efforts were made to improve price stability and inflation. The development of the financial sector has almost universally outpaced the real sector in all economies. This is intended so that the financial sector can generate profits faster than the real sector.

In this case, equity in the monetary sector will have an overall effect on the economy. Increasing sharia bank funding can affect economic equity which has an impact on economic growth in the long term (Purwanto, 2017). In Indonesia, the development of the Islamic banking system is growing rapidly. This can be seen from the emerging sharia financial products along with the improving performance of sharia banking and the level of public trust.

Third Party Funds (DPK) managed to collect Islamic banking reaching IDR 504 trillion and distribute it in the form of financing every year, growing positively amid the pandemic, in line with the increase in the value of DPK and funding implemented by Islamic banking in July 2021. Without taking into account Islamic shares, all assets Indonesian sharia finance as of December 2020 was IDR 1,802.87 trillion, or USD 127.83 billion.

With 65.74 percent of the total, 12 commercial

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Islamic banks make up the majority of this number. Deposit accounts reached 40 million accounts in July 2021, and financing accounts reached 6 million accounts, indicating an increase in the number of accounts in Islamic banks. Therefore, the formation of Islamic banks is fraught with difficulties. These difficulties include the rapid growth of the financial ecosystem as a result of technological advances and changing consumer expectations for more user-friendly and easily available products and services. The bottleneck is size business, competition, availability of money, digital risk, cybersecurity risk and system failure risk.

In order to strategically coordinate the growth path of Indonesian sharia banking and become a catalyst for accelerating sharia development, OJK issued the Indonesian Sharia Banking Development Roadmap (RPS2SI) 2020 to 2025. (Latifah, 2015). Islamic banking still has drawbacks such as insufficient business capital, low levels of inclusion and literacy, inadequate quantity and quality of human resources, and outdated technology. Therefore, reform is needed in order to become a highly competitive Islamic banking. The proportion of funds allocated by Islamic banking will increase under the Islamic financial system. This can be seen from the increase in financing for Islamic banks which has an impact on the volume of products and services purchased by the public. When individuals are more productive.

Result

The Islamic banking system in Indonesia has been progressing rapidly and rapidly. Many sharia financial products have sprung up with the improving performance of sharia banking. This is one way that Islamic monetary policy in the Indonesian economic system has been properly implemented in a number of cases, such as the implementation of conventional economics, where money has an equal function with commodities.

CONCLUSION

The central bank or other monetary authority may establish monetary policy as a guideline for managing the money supply or interest rates to achieve economic goals. The realization and maintenance of currency stability is the basic objective of monetary policy. The Islamic definition of monetary policy follows the basic principles of Islamic economics, namely that Allah SWT is the highest, that humans are caliphs on earth, act as leaders not owners, and that everything that is owned by humans on earth is done on behalf of permission of Allah SWT. As a result, those who are less fortunate have a right to a share of the wealth owned by their more fortunate relatives, and the wealth thus acquired must be rotated rather than hoarded. Sharia law is the monetary tool of Islamic finance today. Since Sharia law prohibits speculating in the Islamic economy and implements a system of zakat and profit sharing, it will encourage investment to be spread evenly into the actual sector with the aim of being fully productive.

The objective of monetary policy is to achieve and maintain currency stability as stated in Law no. 3 of 2004 article 7 concerning Bank Indonesia. In the Covid-19 pandemic situation, Bank Indonesia implemented procedures including continuing the Rupiah exchange rate stability policy according to market fundamentals and mechanisms, strengthening the monetary operations strategy, accelerating money market and foreign exchange deepening procedures, strengthening policy implementation to support MSMEs, and strengthening the digital economy and the financial sector.

Islamic banks collect funds according to sharia principles from stocks, ordinary savings, mudharabah savings, and mudharabah deposits. This income is intended to be used to pay consumers, maintain necessary reserves, finance government operations, and make investments in mudharabah, syir'ah, stocks, leasing, and murabaha. Islamic banks do not use interest rate instruments to pursue monetary policy for economic success.

This research found that sharia monetary policy in the Indonesian economic system has been implemented in several cases, such as the implementation of conventional economics, where money has an equivalent function with

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commodities.

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