RECONSTRUCTION OF ISLAMIC MONETARY POLICY MODELS UNDER THE FIAT MONEY SYSTEM: A CRITICAL REVIEW OF CONVENTIONAL INSTRUMENTS AND SHARIA INNOVATIONS

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Abstract

The dominance of fiat money has generated structural vulnerabilities in many developing economies, particularly regarding exchange-rate volatility, inflationary pressures, and tendencies toward interest-driven financial expansion. The absence of real-asset backing enables unrestricted money creation, which—when used to fund fiscal deficits—exposes economies to misallocation, speculative bubbles, and systemic monetary distortions. In this context, Islamic monetary policy emerges as a normative and practical alternative that anchors financial stability to real economic activities and moral-ethical constraints. This research adopts an empirical qualitative design to explore the conceptual foundations and operational dynamics of Islamic monetary frameworks within a fiat-money environment. Data are drawn from policy documents, regulatory reports, empirical studies, and authoritative Islamic economic literature. Through thematic analysis, the study highlights that Islamic monetary systems strengthen economic circulation, discourage idle money holdings, and promote asset-based monetary expansion. The results emphasize that successful implementation requires comprehensive regulatory architecture, the development of Sharia-compliant monetary instruments, effective oversight of Islamic banking, and the systematic integration of Islamic finance into national financial ecosystems. The study contributes to contemporary debates on monetary reform by demonstrating how Islamic monetary policy can enhance macroeconomic resilience, distributive justice, and long-term welfare.

Keywords: Fiat Money, Islamic Monetary Policy, Sharia-Compliant Instruments, Monetary Stability, Monetary Reform."

A. Introduction

In today's globalized economy, the intensifying competition among business actors—both domestically and internationally—frequently gives rise to conflicts of interest. At the macroeconomic level, competitive pressures influence national economic policy choices, as each country seeks to protect and sustain its economic growth. Inevitably, the policy decisions of one nation exert spillover effects on others, given the increasingly interconnected nature of the global economic system. As noted by (Afaqa Hudaya, 2023), the vulnerability of a nation's economic stability to policy changes abroad emerges when economic activities are not supported by an economic system capable of fostering an equitable and comprehensive order oriented toward human welfare, as emphasized by (Fadillah, 2024).

Such conditions were experienced by Indonesia and many other countries during the U.S. economic bubble known as the subprime mortgage crisis. The unconventional monetary policy adopted at that time triggered significant repercussions across Asian economies through exchange rate volatility, liquidity shocks, and portfolio adjustments. Empirical findings indicate that rising interest rates contributed to short-term improvements in Indonesia's financial stability; for example, a one-percent increase in the interest rate enhanced financial stability by approximately 0.4161 percent (Afaqa Hudaya, 2023). Meanwhile, the sharp decline in U.S. stock prices and the collapse of major financial institutions precipitated a global credit crisis, reducing international credit flows and forcing developing countries to face higher interest rates and diminished investment capacities (Tran & Pham, 2021).

Scholarly evidence also demonstrates that the interest-based system significantly exacerbated the crisis in the United States. Artificially low interest rates stimulated excessive borrowing by households and firms, but when rates rose, many were unable to meet repayment obligations, resulting in a severe liquidity crisis. Banks felt secure in extending risky credit because

they no longer bore the associated risks; loans were converted into financial products such as Mortgage-Backed Securities (MBS) and Collateralized Debt Obligations (CDO) and then sold to investors. Thus, profits continued to be derived from interest, while risks were transferred to external parties (Kregel, 2010). As a result, both banks and investors pursued returns from interest-bearing instruments and derivatives rather than real economic activity, causing financial resources to circulate within speculative markets instead of supporting production, trade, or employment expansion (Goodhart, 2008).

Under the fiat money regime, maintaining exchange rate stability and controlling inflation remain major challenges for developing economies. The presence of money—particularly fiat currency—in an economic system directly shapes macroeconomic outcomes, often through monetary policy interventions. The monetary sector has become increasingly dynamic, outpacing the development of the real sector, to the point where monetary instruments dominate global economic structures. However, differing economic systems adopt fundamentally different perspectives on the nature of money and the role of monetary policy.

From an Islamic historical perspective, Al-Maqrizi documented that monetary deterioration and inflation as early as the fourth century A.D. stemmed from the government's excessive issuance of fiat-type currency to finance budget deficits without creating government-funded employment opportunities. Furthermore, rulers misused fulus for extravagance and corrupt purposes (Nurfaedah, 2022). These historical insights highlight profound differences between the conventional economic system's treatment of money and the Islamic economic worldview.

Against this background, the present study seeks to examine models of Islamic monetary policy and analyze the role of money within Islamic monetary frameworks. Specifically, this research critically evaluates how Islamic monetary principles may be reconstructed and effectively implemented under a fiat money system, while exploring both the limitations of conventional monetary instruments and the innovations offered by Sharia-compliant mechanisms.

B. Theoritical Review

a. Conventional and Islamic monetary policy

Monetary policy refers to the actions undertaken by the monetary authority or central bank—Bank Indonesia (BI)—to regulate monetary aggregates, including the money supply, credit, and banking liquidity, with the aim of achieving the desired level of economic growth (Nasution, 2006). In macroeconomic analysis, the money supply exerts a significant influence on economic output and price stability. An excessive increase in the money supply that is not accompanied by proportional growth in productive activities typically results in rising price levels, commonly known as inflation (Anita, 2014).

The Islamic monetary policy model represents an economic policy framework formulated by the government and delegated to Bank Indonesia as an autonomous institution free from direct governmental intervention. This policy seeks to achieve economic stability by managing the quantity of money circulating in society while adhering to Sharia principles such as: the prohibition of riba (interest), distributive justice, monetary value stability, and the maintenance of balance between the real and monetary sectors. The primary focus of Islamic monetary policy is the preservation and continuous circulation of economic resources (Putra H.M., 2022). Accordingly, regulators must ensure the availability of productive economic ventures and Sharia-compliant financial instruments capable of absorbing the investment potential of the public. In this sense, Islamic monetary policy aspires to create an economic order that is just, balanced, and oriented toward holistic human welfare.

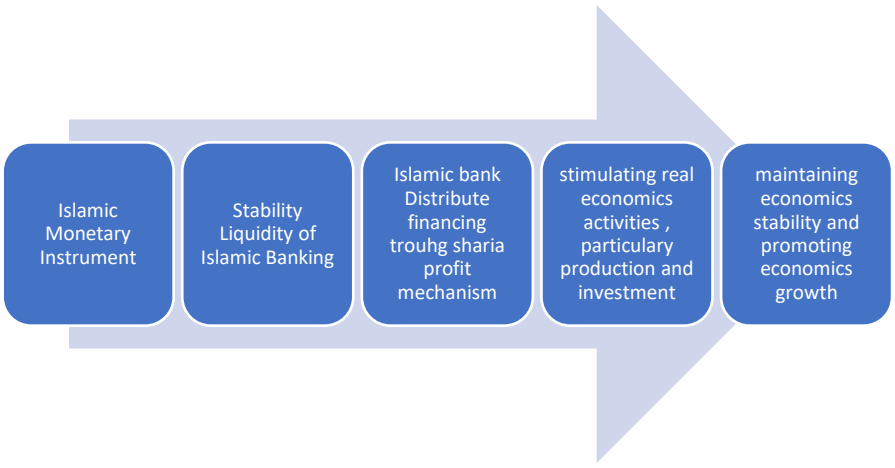
The presence of money in an economic system inevitably affects a nation's economic conditions, particularly through monetary policy mechanisms. Comparative literature on Islamic and conventional monetary policy indicates that many conventional monetary instruments can be adopted within Islamic monetary frameworks, either directly or with modifications. The success of Islamic money market operations as monetary instruments in Malaysia further reinforces arguments supporting the development of a sustainable, Sharia-compliant monetary policy framework.

Consequently, before fully transitioning to a central banking system operating under an Islamic economic framework, governments must avoid dependence on foreign debt. By eliminating reliance on external borrowing, policymakers retain full autonomy in formulating and implementing monetary policy (Engku Huda Mursyidah, 2022).

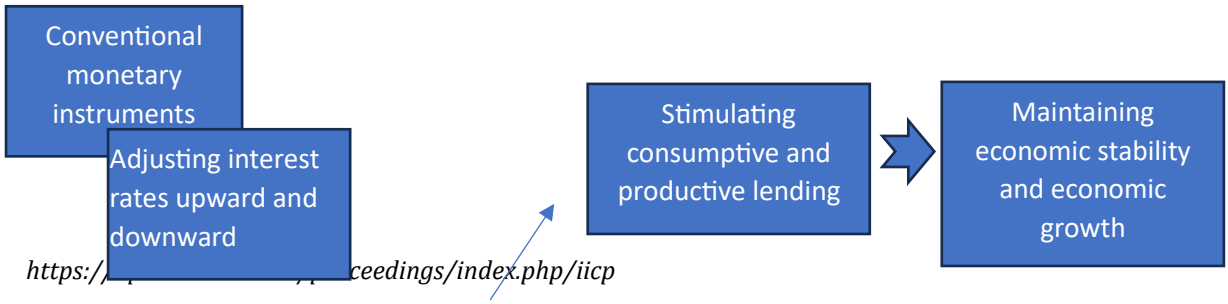
Islamic and conventional monetary instruments.

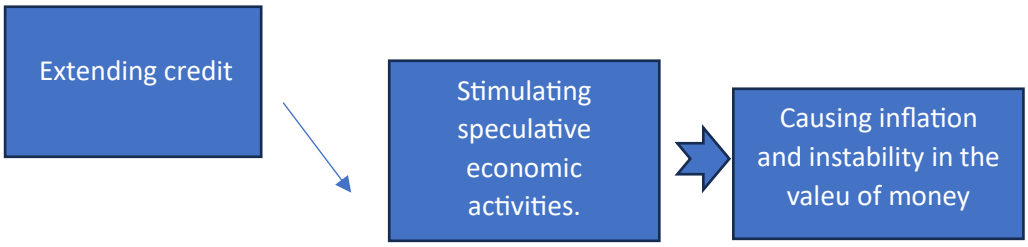
Theoretically, both Islamic and conventional monetary policies share the same overarching objectives, namely achieving economic stability and fostering sustainable economic growth. However, in practice, the operational mechanisms and policy instruments employed by Islamic monetary policy differ significantly from those used in the conventional framework. Islamic monetary policy prohibits the use of riba (interest), whereas conventional monetary policy continues to rely heavily on interest-based mechanisms in its implementation. The following section outlines the key distinctions between the mechanisms of Islamic and conventional monetary policy:

Flowchart of the Sharia operational mechanism:



Flowchart of the conventional operational mechanism:





The flowchart above illustrates that interest-based systems can stimulate speculative activities, which in turn generate inflationary pressures and contribute to economic instability. In contrast, Islamic monetary instruments are designed to prevent the emergence of economic bubbles that may lead to inflation and the depreciation of a nation's currency. Accordingly, the following section presents the Islamic monetary instruments that operate free from interest-based mechanisms.

Islamic Monetary Instruments

1. Shariah-Compliant Reserve Ratio
   The central bank may impose a Shariah-based reserve requirement that is not interest-bearing but instead represents a specified percentage of Shariah-compliant deposits (Daniar, 2016).
2. Moral Suasion
   The monetary authority may encourage Islamic banks to increase financing to the real sector through *moral persuasion*—a non–interest-based approach—particularly during periods of economic slowdown (Daniar, 2016).
3. Profit–Loss Sharing Mechanisms
   Contracts such as *mudharabah* (profit-sharing) and *musyarakah* (partnership) may be utilized to stimulate liquidity and investment within the financial system (Octaviana Dainy, 2025).
4. Asset- or Commodity-Backed Instruments
   Monetary instruments or financial contracts may be tied to real assets or commodities to prevent speculative activities and to preserve fair value over the long term (Daniar, 2016).
5. Shariah-Based Liquidity Regulation
   The central bank may employ Shariah-compliant certificates or liquidity instruments to maintain liquidity in Islamic banks without resorting to conventional interest-based tools (Octaviana Dainy, 2025).
6. Islamic Sukuk
   Sukuk issuance serves as a policy tool for the government to adjust the money supply. By issuing sukuk, excess liquidity can be absorbed back into the central bank, enabling sukuk to function as an instrument capable of increasing or decreasing the circulating money supply (Daniar, 2016).
7. Governance Instrument Certificate (GIC)
   This instrument replaces conventional treasury bills, which are issued by the Ministry of Finance and sold by the central bank. As treasury bills are prohibited under Shariah principles, they are substituted with Governance Instrument Certificates that operate on a non–interest-based system (Daniar, 2016).

Fiat money system

Normatively, fiat money refers to currency—whether in the form of paper notes or coins—that is recognized as legal tender by the authority of a particular state, despite having no intrinsic value or reserve backing equivalent to its nominal worth. Historically, when the global economy adhered to the gold standard, every issuance of currency was backed by gold reserves. However, since 1931, money

issuance has no longer been supported by gold, and during that period the United States government terminated its citizens' right to convert paper currency into gold deposits (Robbins, 2005).

The system of fiat currency is generally justified by three strong and rational arguments, including:

1. Flexibility in Monetary Policy – The central bank can regulate the money supply through interest rates, open market operations, and other monetary tools (Pinneda, 2025).
2. Potential for Greater Economic Stability (under certain conditions) – Because it is not tied to gold, the fiat system can adapt more easily to the pace of economic growth.
3. Efficiency and Lower Production Costs – Producing paper currency is far less expensive than extracting precious metals. This characteristic also facilitates the development of modern financial instruments, including digital and electronic payment systems, because the currency does not depend on the physical value of costly commodities.

money circulates and functions as legal tender in each country. However, if a government withdraws its legal authority and adopts another form of currency, fiat notes would lose their value entirely (kalsum, 2014), especially considering the inherent instability of their extrinsic and intrinsic values. Such volatility presents significant challenges within the international monetary system.

Despite the rational advantages associated with fiat money, historical evidence also highlights its negative consequences. According to several economists, one source of these problems is the disparity between the intrinsic value of fiat currency and its nominal value (Sakti, 2007). The fluctuations between its extrinsic and intrinsic values tend to be unstable (Tassyah, 2022). This discrepancy between intrinsic worth and nominal value can lead to economic bubbles and, subsequently, financial crises (Kalsum, 2014). Another drawback concerns the inequitable nature of fiat money issuance: the seigniorage profit earned by monetary authorities from currency printing (el-Diwani, 2005). Moreover, fiat currency is considered unsuitable for long-term value storage due to its frequently fluctuating exchange rate (Treiblmaier, 2022). These conditions pose new challenges within global monetary dynamics. While the benefits of fiat currency are largely enjoyed by developed nations and government officials, it is also vulnerable to counterfeiting, enabling irresponsible individuals to exploit the system for personal gain (Tassyah, 2022).

Empirical data demonstrate that fiat money is highly susceptible to inflation. Because it can be issued without quantitative limits, there is a significant risk of high inflation or even hyperinflation—particularly when governments or central banks misuse their authority to print money in order to cover budget deficits or finance debt, creating cycles of indebtedness and inflation (Lathif Hanafir Rifqi, 2020). Similar concerns were conveyed by al-Maqrizi, who observed that monetary disorder in the 14th century resulted from government policies involving excessive currency issuance to compensate for fiscal deficits caused by corruption and extravagant lifestyles of the ruling elites (Al-Maqrizi, 1956).

The Prophet Muhammad (peace be upon him) also anticipated such monetary conditions, as reflected in a narration reported by Abu Bakar ibn Abi Maryam, who heard the Messenger of Allah say: *"A time will come upon mankind when there will remain no meaningful distinction as they will use dinar and dirham as secure means of exchange."* (Musnad Imam Ahmad ibn Hanbal). This implies that monetary stability—alongside the abolition of the interest system—must be supported by a stable exchange-rate regime, which historically is inherent in currencies backed by gold and silver (dinar and dirham).

C. Methodology

This study adopts a qualitative approach, where the researcher aims to comprehend the meanings constructed by individuals or groups in relation to a social phenomenon. The research is designed as empirical qualitative research, as it seeks to explore and interpret lived experiences rather than test numerical hypotheses (Creswell, 2018). This approach was selected because the focus of the study lies in developing an in-depth understanding of the practices, perceptions, and dynamics of Islamic monetary policy under a fiat money regime. The empirical data utilized in this research originate from real-world sources, including policy documents, annual reports, publications from the

Financial Services Authority (OJK), scholarly literature on innovations in Islamic monetary instruments within a fiat monetary system, as well as observations related to the implementation of monetary policies. The use of these sources enables the development of contextual and grounded findings (Denzin, 2017). Data analysis was conducted through thematic analysis, which consisted of three primary stages. First, data reduction was carried out by filtering relevant information obtained from interviews and policy documents. Second, categorization and coding were undertaken by grouping data into themes such as "Sharia principles in monetary policy," "challenges of fiat money," and "innovation in Islamic monetary instruments." Third, meaning interpretation was performed by linking the empirical findings with theories and principles of Islamic monetary policy (Miles, 2014).

D. Result And Discussion

In general, many economists argue that Islamic monetary policy is merely conceptual and difficult to implement in practice, particularly in countries that adopt a dual banking system. Nevertheless, a considerable number of scholars have presented empirical evidence demonstrating that Islamic monetary policy can be applied effectively within a modern economic framework and can serve as a reliable monetary instrument at the national level. Discussions on Islamic monetary policy cannot be separated from the Islamic perspective on the function of money, as the Islamic monetary system views money as a public utility that should serve as a unit of value and a medium of exchange. This system promotes the circulation of money to enhance welfare and production by prohibiting hoarding, speculation, and the treatment of money as a tradable commodity (Prasetyo, 2017). This principle stands in stark contrast to the fiat money system, which is vulnerable to inflation and reinforces interest-based activities; consequently, global financial crises have been characterized as the logical outcome of interest-based and speculative fiat monetary systems that lack a real-sector foundation (Chapra, 2000).

The role of fiat money in modern economic transactions has produced significant detrimental effects. Empirical studies have documented multiple failures attributed to fiat currencies, including repeated cycles of monetary crises that escalate into economic crises. The United States, in particular, retains substantial global political influence due to the extent to which many countries remain dependent on the U.S. dollar. Without the use of military power, fiat money functions as a geopolitical tool. Interest-based lending mechanisms employed by Western countries to exert control over Muslim-majority nations have been made possible through fiat-money-based banking arrangements (Snyder, 2019). This argument is reinforced by data showing that the value of fiat currency can be manipulated through speculative demand and supply mechanisms. Speculators may flood the market with a currency to drive down its value and subsequently withhold it to raise its price. Such practices can elevate the domestic value of a currency while simultaneously increasing the cost of living in countries where that currency is widely used, including the United States as the issuing nation (Lee, 2021). As a result, exchange rates become highly volatile, with fluctuations occurring from minute to minute (Billah, 2010).

Achieving harmony between macroeconomic stability and Sharia-compliant principles

Islam adopts a balanced and equitable perspective on money, in which its primary function is limited to serving as a medium of exchange. Accordingly, anchoring monetary value to gold is considered the most appropriate approach for ensuring long-term currency stability. Islam does not prohibit the use of alternative materials as currency, as long as the issuance of money remains backed by gold and silver (Ascarya, 2009). Within an Islamic economic framework, the monetary system must reinforce the role of money as a means of exchange and must prevent the accumulation or hoarding of wealth (Prasetyo, 2017). This is because the fundamental orientation of Islamic monetary policy is the continuous circulation of economic resources.

In Islamic economics, the financial sector must advance in direct proportion to the real sector. When finance and real economic activity grow in parallel, inflationary pressure can be avoided. This stands in contrast to the capitalist economic model, which separates the financial sector from the real

sector. Conventional finance relies on interest-based mechanisms, which lead to an expansion of the money supply without equivalent growth in the real economy (Octaviana Dainy, 2025). Therefore, if the Muslim community in Indonesia focuses solely on expanding Islamic banking and financial institutions without simultaneously strengthening real economic output, the benefits will remain limited.

To prevent this risk, Islamic funds must be channelled toward productive financing instruments supported by profit-sharing contracts. Such allocation ensures that capital flows generate optimal production and distribution of goods and services required by society, allowing economic benefits to be felt by a broader segment of the business community.

a. Components of Reconstruction

The design of interest-free monetary instruments

A comparative review of the literature on Islamic and conventional monetary policy demonstrates that the most fundamental distinction lies in the purpose of monetary regulation and the prohibition of interest within the Islamic framework (aulina evi silvia, 2025). In Islamic economic theory, the money supply is not treated as an exogenous variable determined freely by the government. Instead, it is considered an endogenous variable, where the quantity of money circulating in the economy is shaped by demand for money in the real sector. In other words, the volume of money in circulation must be equivalent to the value of goods and services produced in the economy.

The literature further indicates that there are numerous monetary policy instruments that can be integrated into an Islamic monetary framework—with or without substantial modification. First, the central authority can adjust the reserve requirement ratio for Islamic banks. This policy becomes relevant when financial-sector growth outpaces real-sector expansion, allowing economic stability to be maintained.

Second, investment instruments—such as Islamic shares, sukuk, and deposits—may be utilised to finance socially beneficial development projects without relying on interest-based mechanisms. The objective is to mobilise idle funds within society and channel them toward socially constructive purposes.

Third, financing models consistent with sharia principles—such as mudharabah and musyarakah—offer alternatives that broaden financial access for groups underserved by the conventional banking system. Through these mechanisms, a wider segment of society can obtain funding for productive business activities, thereby supporting inclusive economic growth (Rahmad Riho Zeen, 2022).

Fourth, the Governance Instrument Certificate (GIC) operates as a sharia-compliant substitute for treasury bills previously issued by the Ministry of Finance and traded through the central bank. Since treasury bills are not permissible from a sharia perspective, GIC is implemented as a non-interest instrument (Daniar, 2016). Empirical findings show a clear correlation between the development of Sertifikat Bank Indonesia Syariah and Indonesia's economic growth over the period 2020–2023 (Octaviana Dainy, 2025)

Fifth, Islamic monetary literature emphasises ethical and moral integrity as a foundation for the successful implementation of all preceding instruments. A constructive relationship between the central bank and commercial banks is considered critical to achieving policy objectives effectively (Prasetyo, 2017).

b. A mechanism for controlling the money supply through asset backing

Islamic monetary policy firmly prohibits any form of financial transaction that is not supported by productive real economic activities such as the production of goods and services. This policy is designed to foster a stronger connection between the financial sector and the real sector. The existence of fiat money is considered one of the certainty-driven causes of inflation, especially when it operates within a capitalist system. The 2008 financial crisis in the United States reinforced how fiat money combined with interest-based mechanisms triggered a "credit boom," which eventually led to the housing bubble (Goodhart, 2008). Contemporary monetary economists also agree that the crisis

stemmed from distortions in the financial sector resulting from speculative activities. In such a system, finance becomes separated from the real sector, ultimately disrupting production, trade, and services. Prices of goods and services rise not because of supply-and-demand dynamics, but due to higher banking interest rates, currency depreciation, or even psychological market sentiment.

Therefore, the implementation of Islamic monetary policy should be complemented by a stable currency system such as the use of dinar and dirham or other currencies backed by a gold standard. Such monetary systems are more resilient and less vulnerable to inflation, as the intrinsic value of gold-backed money naturally maintains its exchange rate against other currencies. Additionally, the development of investment instruments—such as sovereign asset-backed Sukuk and real-transaction-based securities—can serve as credit-controlling tools rooted in real underlying assets, helping to support economic stability and curb inflation driven by credit-based money creation (Shiddiqi, 2004). Furthermore, Islamic monetary instruments can suppress inflation caused by the weakening of domestic currency against foreign currencies, which often contributes to the rising prices of imported commodities, output gaps, and inflation expectations (Haritsi, 2006). Thus, as long as fiat money remains in use—whether under a capitalist or Islamic economic system—problems related to inflation will continue to arise (Daniar, 2016).

c. Profit-and-loss-sharing-based liquidity instruments

The core essence of Islamic monetary policy is ensuring that economic resources—both money and assets—continue to circulate productively within the economy. This idea aligns with the fundamental principles of Islamic economics, which emphasize fair and sustainable economic growth. Maintaining the circulation of economic resources contributes to increased production, job creation, and overall social welfare (Imsar Imsar, 2023). Therefore, to support the effective implementation of Sharia-compliant monetary policies, governments must provide monetary instruments that are equivalent to conventional tools, especially in countries implementing a dual banking system. This can be achieved through the development of Open Market Operation Instruments, Central Bank Liquidity Facilities, Standing Facilities, and liquidity absorption and injection tools—such as Central Bank Sukuk, Sharia Commodity Certificates, Ijarah Certificates, and Sharia Repo (Sell and Buy Back Agreement Sharia) (Ismal, 2010). Research shows that Islamic monetary instruments such as Bank Indonesia Sukuk and commodity-based instruments are highly effective in managing Islamic bank liquidity (Ismal, 2010).

SBIS and Sharia Sukuk are concrete examples of efforts to expand financial instruments that comply with Islamic principles, enabling them to be used as tools for achieving the goals of Islamic monetary policy. The successful operation of the Islamic money market in Malaysia strengthens the argument for developing a sustainable, Sharia-compliant monetary framework. Within the Islamic monetary system, there is a distinctive approach in managing the flow of money. The main principle is the rejection of financial transactions that are not rooted in real productive activities. Therefore, Islamic monetary instruments are expected to be directly linked to productive economic performance. Several studies demonstrate that Islam preserves economic balance by applying a profit-and-loss sharing mechanism (aulina evi silvia, 2025). To create a conducive environment that enables the government to formulate and implement Islamic monetary policies effectively, it is necessary to reduce dependency on foreign debt. This step is crucial to minimize potential external intervention that could disrupt national sovereignty in determining economic policies.

d. Strengthening regulations to reduce speculation

The government plays a pivotal role in formulating the framework for Islamic monetary policy through the central bank. Chapra emphasizes that the state is obliged to design a monetary management system grounded in ethical values and justice, ensuring that money is consistently linked to real economic activities and remains detached from usury-based transactions (Chapra M. U., 1997). Accordingly, the government must establish an Islamic monetary framework that includes: the prohibition of interest-based instruments, the substitution of such mechanisms with asset-backed and profit-and-loss-sharing instruments, and the maintenance of monetary stability without reliance on

credit expansion driven by interest. Among the relevant instruments are Wakalah Certificates, Central Bank Sukuk, Sharia-compliant commodity instruments, and Qardhul Hasan liquidity facilities. In essence, regulations that open business opportunities, expand access to Islamic financial products, and govern the circulation of money in society will contribute to increasing the velocity of money within the economy (Chapra, 2000).

Furthermore, the government is responsible for providing a solid legal foundation and establishing adequate financial institutions to support the effectiveness of the Islamic monetary system (Mirakhor, 2011). Without strong regulatory legitimacy, Islamic monetary instruments cannot operate effectively (Mirakhor, 2011). Therefore, the state must ensure the availability of: Islamic Banking Law, central bank regulations governing Islamic monetary instruments, a Sharia Supervisory Council (such as the SAC/DSN-MUI or state-level fatwa bodies), and prudential supervision mechanisms consistent with Islamic principles.

Government oversight of Islamic banks may be conducted through several mechanisms, including the regulation of liquidity ratios based on Sharia principles, the implementation of a Sharia governance framework, Sharia-compliant risk management (profit-sharing risk, equity risk), and consumer protection for Islamic financial users. The Bank for International Settlements also highlights the need for specialized prudential regulation for Islamic banks because their risk profile differs considerably from conventional banking (Islamic Financial Services Board, 2015).

Another essential role of the government is ensuring the integration of Islamic monetary policy into the national financial system. This requires connecting Islamic banks to the Islamic money market, utilizing Sharia monetary instruments in central bank operations, harmonizing fiscal and monetary policies through sukuk-based financing, and ensuring coordination between fiscal and monetary authorities. Research findings indicate that the implementation of Islamic monetary policy becomes challenging in a financial system that lacks full integration, and contextual adjustments are required in each country (Mariam El Hamiani Khatat, 2020).

Additionally, the government must carry out educational initiatives to enhance literacy and public awareness regarding the Islamic money market and Islamic finance in general. Capacity building for banking and central bank professionals is also crucial to support the development of Islamic money market infrastructure, as literacy and human capital development are critical determinants of the successful implementation of Islamic monetary policy (AH, 2018).

E. Conclution

Islam adopts a fair and balanced perspective on the concept of money, whereby currency is viewed solely as a medium of exchange. The most appropriate way to maintain the stability of monetary value is by anchoring money to gold, or at minimum ensuring that the issuance of currency is fully backed by gold and silver reserves. Under these conditions, Islam does not prohibit the use of other materials as currency. The monetary system in Islamic economics must therefore reinforce the function of money as a transactional tool and prevent the accumulation of idle funds. This reflects the core orientation of Islamic monetary policy, which prioritizes the continuous circulation of economic resources. Within the Islamic economic framework, the financial sector is expected to grow proportionally with developments in the real sector, thereby reducing the likelihood of inflation. Empirical studies show that the use of fiat money in economic transactions—without being backed by gold—has generated significant negative effects. Conversely, currencies with intrinsic value such as the dinar and dirham have historically contributed to stronger monetary stability, reduced inflationary pressure, and helped foster an equitable economic system. Social disparity and economic stagnation can also be avoided when money hoarding and speculative activities are prohibited. Therefore, when compared to conventional monetary arrangements, the Islamic monetary system offers a more sustainable and resilient alternative. To ensure the effective implementation of Islamic monetary policy, the government must provide comprehensive support, including establishing regulatory and legal frameworks, developing Sharia-compliant monetary instruments, maintaining asset-backed currency stability, regulating and supervising Islamic banks, integrating Islamic finance within the

national financial architecture, and promoting education and awareness among the public and industry stakeholders.

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