STATE MONETARY POLICY : A COMPREHENSIVE MODEL REVIEW FROM AN ISLAMIC ECONOMIC PERSPECTIVE

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Abstract

Speculative practices of interest rate usage, causing an imbalance in the amount of money circulating in the financial sector and the real sector.This study aims to provide recommendations for models and policies of the Islamic monetary system that can be applied in the country. This research method uses a qualitative method with a descriptive-analytical approach based on literature, where the data collected comes from literature on the Islamic monetary system, and its relevance, then the data is analyzed descriptively to provide an overview through content analysis in order to study comprehensively. The results of this study are recommendations for monetary policies that can be applied in the country to emphasize more on increasing the ratio/portion of profit sharing and reducing the burden of margins on murabahah contracts imposed by financial institutions on parties in need of funds.

Keyword: *Islamic Monetary System; Riil Sector; Profit Loss Sharing*

A. INTRODUCTION

The creation of paper money was based on the efficiencies it created, such as faster printing of money, easier distribution to the community, and more practical use in large-value transactions. Based on its function, money functions as an exchange rate, unit of account, and measure of the value of goods, so exchanges in economic transactions must contain the same value to prevent additional charges called usury. However, in its application, paper money often causes inflation and is susceptible to counterfeiting. Therefore, to regulate the circulation of money and overcome economic problems due to the circulation of money in society, there is a monetary system that contains an authority institution, namely the central bank as the monetary authority to carry out its functions as a printer and distributor of money, regulating the payment system, and formulating monetary policy (Meirinaldi & Sudijo, 2018) in order to encourage better economic growth, mainly to regulate the amount of money in circulation in order to achieve price and exchange rate stability.

The stability of the value of money has a great influence on economic life both ideologically and practically, because money determines the value and price of goods and services (Wahyudi, 2013) . The uncertain value of money will lead to inflation or deflation, where the circulation of money that is too high will cause inflation, while money that is too low will cause deflation.

The conventional monetary system emphasizes the use of interest rates, where interest rates position money as a commodity that is traded, so that in this case, money creates its own market, namely the money market, foreign exchange market, and capital market (Juhro et al., 2018) . The implementation of speculative practices from the use of interest rates, causes the financial sector to run alone without being accompanied by the dynamics of the real sector, thus having an impact on the imbalance in the amount of money circulating in the real sector and the financial sector. According to (Gunawan, 2019) . The real sector is a production activity carried out by companies, households, and institutions outside the financial sector, in other words, the real sector consists of the goods/services market and the labor market. The monetary sector is a financial sector consisting of intermediary institutions, such as banking and non-bank financial institutions (Supartoyo et al., 2018) . In addition, the use of interest instruments in regulating the amount of money in circulation allows people to use money as a means of speculation and hoarding of wealth

Islam views money only as a means of exchange and as a unit of value or unit of account, not a commodity as is generally run by conventional systems, which is called *the flow concept.* Al Ghazali explains that in substance money has no value, but will be considered valuable if money is used in its economic activities. (Satriak Guntoro & Husni Thamrin, 2021) , So that Money in the perspective of Islamic economics is always related to the real sector which means it has *underlying assets* and must be used for productive things that can add value to the sector. This is implemented in the Islamic monetary system and monetary policy where money circulating in the community can be regulated by providing profit sharing in portions or ratios according to the cooperation agreement used, which is called *profit sharing.* The purposes of this study to provide recommendations for an Islamic monetary policy model that can be applied in Islamic countries Through the right monetary policy, the central bank can influence the overall economic conditions by creating a fair economy, a monetary system that supports the real sector, and avoiding interest practices that make money function as it should.

B. THEORETICAL REVIEW

The Concept Of Money and implementation

Money is an object that can be exchanged for other objects in economic activities, so that it can be used to measure and assess an object, and can be stored, and can be used at any time with the aim of paying obligations in the form of debts in the future (Widianita et al., 2023) , in other words, that money is defined according to its function: A medium of exchange for goods/services, a means of storing value, Standard unit of account,The measure for future payments (Juhro et al., 2018). Initially, humans made transactions very simply, where there was only money that included cash in the form of paper money called fiat money, including fiat money in it and coins. However, the role of banks in the dominant monetary system resulted in money not only being cash but also in the form of deposits in banks. As a result, money can be regulated in circulation through the process of collection and distribution originating from interactions between the central bank, banks, and the community. Even money has various forms, such as demand deposits that are stored in banks and have not been used by their owners for consumption activities, and the latest is digital money in the form of non-cash, where the owner can access transactions using technology and collected by banking institutions. The money that has been circulating in society is actually an adaptation of the concept of money in capitalist thinking in conventional economics, namely money as a means of exchange and money as capital. (Mansur, 2009) . Based on this idea, money has changed its function to be used as a commodity, such as the concept of money demand by Marshall Pigou from Cambridge School explaining that money is a stock owned by individuals, so it can be saved and involves interest rate instruments in it (Rohmah, 2018) . Meanwhile, the concept of money according to Irving Fisher is that money is essentially *a flow concept* based on the speed of money circulation.

C. METHOD

This research uses a qualitative method with a descriptive-analytical approach that is library *research in nature* , where the data collected comes from literature such as journals, articles, and related documents regarding the history of money, monetary systems, and monetary policy from an Islamic perspective. Primary data sources are in the form of works by Islamic economic thinkers, while secondary data sources include articles, and scientific journals. The data were analyzed descriptively to provide an overview, through content analysis to comprehensively review and connect the concept of money in Islam with Islamic monetary policy. This study has limitations in the interpretation and need for further input regarding the recommendations for the Islamic monetary policy model in the country.

D. RESULT AND DISCUSSION

The Islamic monetary system in terms of bank position and function has a fundamental difference , namely that Islamic banking institutions have a universal and multi-purpose nature and are not merely commercial banks. The whole thing is a combination of commercial banks, investment banks, trust investments, and investment management institutions that are oriented toward capital investment. With this pattern, Islamic banking will be far from the behavior of borrowing and lending money in the short term as applied to conventional monetary policy based on interest rates, so it is expected to survive the threat of crisis.

The position of the central bank from an Islamic economic perspective must be able to implement a policy that can facilitate the real economy in a balanced way, that the dichotomy of the real and monetary sectors does not occur in the Islamic monetary system due to absence interest instruments, therefore do not make money as a commodity or called *the flow concept* not *the stock concept*. This shows that Islamic monetary policy is a supporter of activities in the real sector by implementing the function of money as a means of exchange to facilitate investment, production, and trade activities (sundari et al., 2022).

GDP can be considered as a representation of the real sector, because the greater the GDP, the more money works productively, thus depicting good economic growth . That way, the circulation of money does not depend on the rise or fall of interest rates, but on the activities of collecting and distributing funds due to monetary policies that support the circulation of money based on production and consumption activities in the community in the goods or services market (Santoso et al., 2024).

In essence, Islamic monetary policy implemented by the state seeks to balance economic objectives with Islamic ethical and moral principles , such as the Prohibition of Usury (interest), encouraging a profit *-sharing system* as a substitute for interest rate instruments , thus creating a system that not only focuses on economic growth, but also on the targets of social justice , public welfare , *full employment and* stability of the value of money which will affect the price of goods as a whole.

Monetary policy must be regulated to achieve a balance between economic growth and price stability, and take into account people's behavior in managing money. (Marasabessy, 2022) . This answers the economic problem from an Islamic perspective, that the main problem is not scarcity, but the even distribution of wealth, where the main focus of monetary policy in Islam is maintaining the circulation of economic resources according to sharia principles without interest rate instruments, so that there is no reason for fund holders to hold their money in the money market. In other words, for the circulation of economic resources to run, it is necessary to maintain price stability, so that the allocation of resources and access to market players are not disrupted by balancing the demand and supply of goods/services with monetary instruments, then indirectly prices will follow the market mechanism as conveyed by Ibn Taymiyah.

In general, the monetary system is a facilitator to connect the financial sector and the real sector, resulting in a monetary policy pattern that emphasizes investment, which is explained in the Islamic monetary transmission mechanism on the profit loss sharing. Abu Yusuf explained Regarding Finance, he stated that state money is a mandate from Allah SWT which means it does not belong to the caliph or individuals but is distributed to its people as a form of responsibility to maintain and achieve economic prosperity, and justice. (Muhit et al., 2023) . Therefore, the implementation of Islamic monetary policy requires the right strategy for countries that implement a dual financial system, the author developed a strategy according to 1) Determining monetary policy instruments that remain within the framework of a dual financial system under the same authority, 2) Formulate innovative monetary policies, 3) Building supporting infrastructure for the implementation of Islamic monetary policy, 4) Focus on improving the banking and non-banking financial industry based on Islam. 5) Involving Islamic social financial institutions in the Islamic monetary system to maintain and increase the circulation of money in society. Based on the Islamic monetary policy strategy above, the author developed a monetary economic system model by (Juhro et al., 2018) which contains its monetary policy so that it can be implemented, as follows:

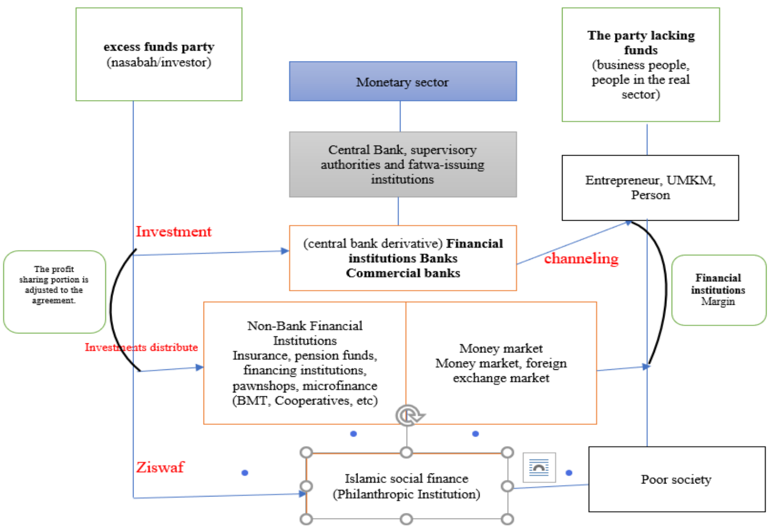

Figure 1. Recommendations for the Monetary System Model

Information:

- The image above shows that there are several parties involved in the monetary sector, namely the central bank which is the main controller to regulate the circulation and issuance of money, assisted by the supervisory authority, and the fatwa-giving institution. Bank financial institutions consist of commercial banking institutions, while non-bank financial institutions consist of financing institutions, pawnshops, micro institutions, pension fund institutions and others. Considering Islamic monetary policy, there are Islamic social financial institutions to collect and distribute funds to those in need, especially the 8 asnaf regarding zakat instruments.
- Fund owners are facilitated to invest their assets/money in the monetary system mentioned above to then be distributed to parties who need funds, such as entrepreneurs, communities, markets, MSMEs, and others.
- The monetary system is important for making policies so that the amount of money circulating in society is balanced between the real sector and the financial sector, so from the side of the fund owner, the focus is on the ratio portion, while from the side of the party that needs funds, the focus is on reducing the margin charged by financial institutions.

The author emphasizes that to prevent inflation, it is necessary to invite fund owners to invest as much as possible in order to prevent more money circulation in the future, namely by increasing the ratio/portion of profit sharing, so that fund owners who are investors have an interest in investing compared to just making continuous purchases, which has an impact on high demand for goods and ends in an unbalanced supply of goods by producers, resulting in rising prices of goods. Meanwhile, to prevent deflation, the author emphasizes reducing the imposition of margins imposed by financial institutions on parties who need funds in the form of financing in order to increase people's purchasing power again. The author's reason for taking steps to prevent deflation with a margin reduction mechanism is because according to (Haq, 2015) as many as 50-70% of people use more murabahah financing in Islamic financial institutions, so it is necessary to anticipate by considering this, so that economic activities in the real sector can run again and provide new enthusiasm for producers to produce at relatively competitive prices with the help of financial institutions as intermediary institutions. As for the social financial sector by philanthropic institutions that are not in the investment realm, such as zakat, infaq, and sedekah will help balance the demand for money and the supply of money. Redistribution of wealth in Islamic economics is regulated through the obligation of zakat which aims to maintain social balance and prevent the accumulation of wealth in certain groups of people.

E. CONCLUSSION

The Islamic monetary system model is a monetary sector that is under the control of banking institutions, non-bank financial institutions, and Islamic social financial institutions are intermediary institutions that bring together fund owners with parties who need funds. Monetary policies that can be implemented domestically so that the level of money circulation in society does not cause inflation/deflation is by considering increasing the ratio/portion of profit sharing, not interest rate instruments, so that fund owners who are investors are interested in making investments, then to prevent deflation, the author emphasizes reducing the imposition of margins imposed by financial institutions on parties who need funds in the form of financing so that people's purchasing power increases again.

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