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MONETARY POLICY AGAINST REVIEW FROM AN ISLAMIC PERSPECTIVE

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Abstract

Monetary policy was designed by the Indonesian government in 1953 based on Law no. 11 of 1953 concerning Principles of Bank Indonesia as a substitute for Javasche Bank Wet of 1922. Law No. 11 of 1953 was the basis for the formation of the Monetary Board in which the Minister of Finance acted as Chairman, while the Minister of Economy and the Governor of Bank Indonesia as Members. The Monetary Board has duties and powers closely related to controlling monetary conditions. According to the Big Indonesian Dictionary (KBBI) monetary is where the value of the currency greatly influences economic conditions. At the time of the Prophet, the monetary policy was implemented by using the standard bimetallic, namely gold and silver (dirhams and dinars) because both of them were legal tender and circulated in society.

Keywords: Policy, Monetary, Islamic Perspective.

1. INTRODUCTION

Monetary is a condition where the currency value greatly influences economic activity. The term monetary emerged in 1997 where the same conditions occurred in almost every country. The monoteran condition also occurred at the time of the Prophet Muhammad SAW when he received an order to preach openly (Al-dahwah al-jahr). The Arab world launched an economic embargo aimed at the Bani Hasyim and Bani Abdul Muthallib, the tribe that gave birth to the Prophet Muhammad. They prohibited food from entering the city of Makkah so that the Bani Hasyim and Bani Abdul Muttalib bought goods outside the city of Makkah. However, the Quraysh intercepted the Hasyim Bani and raised the price of these goods so that the Hasyim could not afford them. Based on God's command in QS Al-Anfal [8]: 30:

وَاِذْ يَمْكُرُ بِكَ الَّذِيْنَ كَفَرُوْا لِيُثْبِتُوْكَ اَوْ يَقْتُلُوْكَ اَوْ يُخْرِجُوْكَۗ وَيَمْكُرُوْنَ وَيَمْكُرُ اللّٰهُ ۗوَاللّٰهُ خَيْرُ الْمٰكِرِيْنَ

30. (Remember) when those who were kufr plotted against you (Prophet Muhammad) to detain, kill, or expel you. They devised and Allah rewarded the deception. Allah is the best avenger of deceit. Based on Allah's command, the Prophet Muhammad and his community chose to migrate to Yathrib which was later changed to Medina at the invitation of the native Medina community, namely the Khazraj tribe and the 'Aus tribe, which are the two largest ethnic groups in the Yathrib Region.

On the 1960s has been founded by Dr. Abdul Hamid An Naggar is a local saving bank operating in the village of Mit Ghamir on the banks of the Nile, Egypt, which is the first modern Islamic bank in the world to implement an interest-free banking system. Although it did not last long, this bank became the foundation for the first Islamic Economic Conference in Mecca in 1975, and two years later the Islamic Development Bank (IDB) was born, which was followed by the establishment of Islamic institutions in various parts of the world.

Indonesia as a developing country has experienced 3 phases of crisis conditions, namely in 1998, the 2008 global economic crisis and the crisis due to Covid 19. In 1998 foreign currencies such as the USD touched Rp. 16,650 per 1 dollar. This causes the public to massively sell USD currency which is converted into Rupiah up to the limits for selling foreign currency and the rules set by the government. So that it worsened Indonesia's economic conditions at that time. Of course, this behavior when viewed from an Islamic perspective is not in accordance with the teachings of the Qur'an, namely the principle of At Ta'awun (helping each other in kindness) QS 5: 2 and the principle of Al Ikhtinaz (withholding money or funds and leaving it idle until the price of the currency rises).

A. Islamic Views About Money

At the time of the Prophet, the initial use of money was called dirhams which were used as a medium of exchange, then they became gold and silver money and were called dinars. Determination of gold and silver currency has four reasons:

a. In QS. Ali Imran: 14 mentions "Make beautiful in humans love for what is desired, namely: Women, children, lots of treasures of this type of gold, silver…." Thus encouraging the use of these types even though there is no obligation.
b. Gold and silver are also used as a basis for assessing zakat issued and the punishment given to thieves.
c. Gold is universal and can be accepted by all people because the physical properties of gold are relatively difficult to counterfeit
d. Gold money can be used as a hedging or hedge which is defined as an investment made to reduce or eliminate risk in another investment.

Islam views money as a medium of exchange, and not as a commodity. Money also fall into the category of usury goods where if there is added value for the exchange of money with the same conditions and types then it is included in the category of Fadhil usury. In the Islamic concept, there is no money demand for speculation, because speculation is not allowed. This is different from the conventional system which pays interest on assets and makes money a commodity.

In its development, money continues to evolve in society. There are five types of money that have been and are being used by the public, viz:

a. FullMoney
   Full money is money that has full value. In modern terms, full money is known as commodity money. It can be interpreted that money can function as a commodity that can be traded and as a medium of exchange for goods and services. The types of full money are Gold and Silver
b. Money Tokens
   Token Money or currently better known as electronic money is a type of money that can only be used for certain payment activities such as paying for parking tickets, toll road tickets, bus way tickets and electronic payment transactions. Token Money is issued by Central Banks, Government, National Commercial Banks, Islamic Commercial Banks, and Regional Banks.
c. Floding Money
   Floding money is a type of currency that is familiar to the public. Namely the type of currency in physical form both paper and metal.
d. Giral Money
   Demand deposits are a type of money issued by banks to customers who own a checking account. In using this checking account, there are 2 facilities, namely checks and demand deposits. By using demand deposits, consumers can track whereabouts and can arrange agreements when the money can be disbursed

B. The Basic Principles of Islamic Finance

Based on the opinion of several Islamic economic experts (Abdullah & Chee, 2010) there are basic principles of Islamic finance consisting of:

1. Confidence in Divine demands
   Allah created the world and its contents for the purpose of worshiping Him, by carrying out His commands and avoiding His prohibitions. Meaningful orders are not only related to worship and religion. But all aspects of activity and behavior in aspects of life. Activities such as investment must pay attention not to contain masysir (obscurity) so as to avoid speculation.
2. No interest rates
   Islam prohibits taking gifts, income and any excess on loans or debts and profits from deposits (usury).
   a. Nasi'ah riba is an addition to debt repayments that are charged for additional debt repayment time.
   b. Fadhl riba appears when the exchange of certain commodities is not carried out at equal and similar scales and scales so that one party benefits and the other party loses

3. No illicit investment
4. Various risks where the anticipated loss is based on the risk borne by both business partners, both the fund provider and the provider as well as the fund manager.
5. Financing is based on Real Assets

B. Interest Rates and Profit Sharing

In conventional economics interest is an addition to the capital provided. The amount added is greater than the capital provided or often referred to as a percentage. So that the interest rate is a percentage or addition to the price of the capital provided. As an illustration, in conventional banking, interest rates are given to all depositors or savers according to the amount of their deposits. In addition to depositors, the conventional economic system also applies credit interest rates, namely the addition of loans given to debtors.

Unlike the case with the Islamic view that the addition of the same type as a result of a sales transaction can be called usury. The word usury is etymologically taken from Arabic and has the meaning ziyadah, namely addition, excess, growth, height and rise (Baalbaki, 1999). Meanwhile, in terminology, usury means the taking of basic assets or capital in vanity.

Profit sharing in accordance with sharia contracts is of course very different from the determination of interest rates. The profit sharing scheme in Islamic banking consists of two Profit and Loss Sharing (PLS) and Revenue Sharing (Syafii Antonio: 2001)

1. Profit and Loss Sharing (PLS)can be interpreted as profit sharing. In the economic dictionary PLS is referred to as profit sharing. While the term profit is a company's total revenue that is greater than the cost of capital (total cost). Profile and Loss Sharing is calculated based on net income of all revenues minus expenses. The Cooperation Agreement between the financier/sahibul maal and the capital manager/mudharib is set forth in the contract where clauses are listed regarding the percentage of each share both in profit and loss.
2. Revenue Sharingis a word that means result while sharing means for. So that it can be interpreted that Revenue Sharing is a process for sharing income without taking into account the operational costs incurred. Revenue Sharing is a distribution of income based on the management of investment funds in the amount of the portion of funds used with no additional costs incurred by customers.

C. Monetary Policy Framework with an Islamic Approach

The monetary policy framework is monetary policy strategy and monetary policy implementation. To implement the monetary policy framework, Bank Indonesia implements the Inflation Targeting Framework (ITF). The ITF is a monetary policy framework regarding the target range and inflation target that can be achieved in a certain period. The ITF was implemented using the policy interest rate as a monetary policy marker and the overnight interbank money market rate in Indonesia – IndONIA (Indonesia Overnight Index Average) as an operational target. This framework has been officially established since June 1, 2005.

In the book Monetary Economics there is

a) Streams of Income and Funds
   In general, there are four main actors that are integrated in the economic sector as determinants of income and expenditure creation, namely households, government, companies and foreign countries.
b) General Economic Balance and IS-LM
   Walras' law explains that excessive demand in one market must be offset by excessive supply in other markets, while the IS-LM concept is used to reduce the balance of aggregate demand and supply in an economy.
c) Market Imperfections and Financial Imbalances
d) Balance in Islamic Economics
e) The Role of the Monetary Authority

2. IMPLEMENTATION METHOD

The research method used in this article is library research.

3. RESULTS AND DISCUSSION

A. Monetary policy

Monetary policy is a mechanism taken by the government to overcome conditions of economic instability. The government as an institution that manages the state is required to be able to carry out the mandate of the law, namely to bring prosperity to the people who are led. Several monetary policies such as regulating the amount of money in circulation, limits on the use of foreign exchange in transactions in Indonesia, tax amnesty and incentives as well as other policies related to economic improvement continue to be encouraged so that the country can escape the economic crisis.

Monetary policy can be classified into two, namely:

a. Expansive monetary policy is a policy taken with the aim of increasing the amount of money in circulation. This policy is expected to increase people's and industry's purchasing power to reduce unemployment.
b. Contractive Monetary Policy (Monetary Contractive Policy) is a monetary policy to reduce the amount of money in circulation in order to suppress the inflation rate of a country. This policy is also called a tight money policy (Rahardja, 2005).

The monetary policy implemented by Bank Indonesia has the objective of achieving stability in the value of the Rupiah, maintaining the payment system and also maintaining the stability of the economic system so that it can support sustainable economic growth. In article 7 of Law NO. 23 of 1999 concerning Bank Indonesia as amended several times and most recently by law no 4 of 2023 concerning the Development and Strengthening of the Financial Sector. The stability of the rupiah means that the exchange rate of the rupiah against goods and services is stable. Meanwhile, price stability means that it is generally measured from low and stable inflation.

B. Monetary Policy Islamic Perspective

In the current era, money is not only a medium of exchange and a unit of account, but also interest rates that can affect the value of money and the real commodities traded. Monetary policy plays a role in regulating and maintaining the value of money in a stable condition so that a country's goals, namely economic growth, can be realized. In terms of setting interest rates in conditions of instability between the financial sector and the real sector, it becomes another root of problems in the economic system. This causes inflation, a decrease in the value of money which can lead to a decrease in people's purchasing power. Currency stability means that currency exchange rates for goods and services are stable. Meanwhile, price stability means that it is generally measured from low and stable inflation. Islamic monetary policy has a value foundation originating from the Al-Quran and Hadith. The fundamental foundations that are often conveyed in the Al-Quran and hadith include the prohibition of usury (interest rates) gharar, masyir and taking advantage at the expense of others. Islamic monetary policy encourages production in the real sector, optimizing existing resources to the extent of meeting the basic needs of living things or in other words not overdoing it and maintaining continuity so that it can be utilized by the next generation. The increase in the amount of money must be due to the high need for money in the real sector so that there is no idle money (money that cannot be used).

In terms of implementing Islamic monetary policy, one way is to eliminate instruments that contain usury, such as interest rates, and implement instruments that are based on contracts justified in Islam.

The impact of the implementation of the monetary policy is as follows:

1. Adequate manpower and optimal economic growth. Where the presence of monetary policy is expected to maximize existing resources into the real sector
2. Socio-economic justice and equity in income distribution. Providing opportunities for the community to be active in economic activities and meet the needs of life.
3. Stability of the value of money both domestically and abroad. This is of course important considering that developing countries like Indonesia certainly have export and import transactions that involve currencies between countries. Unstable currency values reduce investors' interest in investing in a country

C. Functions of the Central Bank in the Islamic Monetary System

The central bank has a role to ensure that money functions as it should, namely money as a medium of exchange and not used as part of a commodity that can be traded like other goods and services in the real sector, because in Islam money is not a commodity that can be traded. For this reason, the amount of money creation and circulation must be managed by the central bank. Bank The central government is obliged to maintain synergy and harmony between the financial sector and the real sector, not merely regulating the amount of money in the financial market. The central bank as a state institution has the responsibility to transform money in the financial sector into capital (capital) in the real sector (Toutounchian, 2009).

4. CONCLUSION

In implementing monetary policy from an Islamic perspective, of course, it refers to the Al-Quran and Hadith. Eliminating the connotation and literal meaning of interest rates in terms of taking policy is considered to be important. Considering that interest rates are a nominal reference for the percentage of income and expenses incurred by customers who own capital and borrowers. It is strictly forbidden by Islamic teachings to take advantage of other people's losses. Determination of interest rates by the Central Bank in the view of researchers should be seen from the types of contracts in the Islamic economic system. Each contract will have a different application ratio (profit sharing), profit sharing and loss sharing. In addition, the monetary policy taken must pay attention to the productive sector. With the development of the productive sector, it will be able to create a balance between supply and demand so that economic growth will be achieved.

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