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Sharia Monetary Policy Instruments in Indonesia

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A B S T R A C T

In Islamic monetary policy, there is no known interest system. The instruments used in Islamic monetary policy are also different from monetary policy in general because they are not familiar with the interest system. Precisely with the unknown interest system, making Islamic monetary policy more resistant to economic turmoil so that in the end the ultimate goal of monetary policy can be achieved and will be able to become a new tool in maintaining economic stability. The approach used in this study is Literature review using the Systemic Literature Review (SLR) method. The purpose of this study is to find out how the Islamic Monetary Policy Instrument is defined, mazhab and its implementation in Indonesia.Indonesia as a country that implements a dual monetary system, Indonesia also conducts monetary policy through OMS or Sharia Monetary Operations. Sharia Monetary Operation is the implementation of monetary policy by Bank Indonesia in the context of monetary control through open market operations and the provision of standing facilities based on sharia principles. The objectives of CSOs areachieve the operational target of sharia monetary control in order to support the achievement of the final target of Bank Indonesia's monetary policy.

Abstrak

Dalam kebijakan moneter Islam, tidak dikenal sistem bunga. Instrumen yang digunakan dalam kebijakan moneter syariah juga berbeda dengan kebijakan moneter pada umumnya karena belum mengenal sistem bunga. Justru dengan tidak dikenalnya sistem bunga membuat kebijakan moneter syariah lebih tahan terhadap gejolak ekonomi sehingga pada akhirnya tujuan akhir kebijakan moneter dapat tercapai dan mampu menjadi alat baru dalam menjaga stabilitas ekonomi. Pendekatan yang digunakan dalam penelitian ini adalah Literature review dengan menggunakan metode Systemic Literature Review (SLR). Tujuan dari penelitian ini adalah untuk mengetahui bagaimana definisi Instrumen Kebijakan Moneter Syariah, mazhab dan implementasinya di Indonesia. Indonesia sebagai negara yang menerapkan sistem moneter ganda, Indonesia juga melakukan kebijakan moneter melalui OMS atau Operasi Moneter Syariah. Operasi Moneter Syariah adalah pelaksanaan kebijakan moneter oleh Bank Indonesia dalam rangka pengendalian moneter melalui operasi pasar terbuka dan pemberian standing facilities berdasarkan prinsip syariah. Tujuan CSO adalah untuk mencapai sasaran operasional pengendalian moneter syariah dalam rangka mendukung pencapaian sasaran akhir kebijakan moneter Bank Indonesia.

1. Introduction

During these decades, the world economic system was formed and implemented based on capitalist liberal thinking which is free from value and aims only to achieve maximum profit from limited resources. One of the instruments used is interest which later becomes the spirit of the capitalist economic system. Countries that like it or not have to deal with other countries, like it or not, have to adjust their economic system to the economic system adopted by the world. The monetary policy system is no exception.

Monetary policy is an attempt to control macroeconomic conditions so that they operate as desired by controlling the amount of money that circulates in the economy. These efforts are aimed at ensuring price stability and inflation and increasing equilibrium output. Almost all sectors of the capitalist economy are related to the interest system so that the monetary sector develops faster than the monetary sector. This is because the monetary sector is more profitable than the real sector.

Within the framework of macroeconomic policy, this Islamic economic system touches on both fiscal policy, monetary policy, and real sector policy. However, primarily this system is closely related to monetary policy. This is because monetary policy is primarily used to influence financial variables such as interest rates and money supply. By regulating these two financial variables, it is hoped that the stability of the value of money will be achieved so that in the end economic stability will be achieved as well.

The economy of a country is closely related to monetary policy. General monetary policy is carried out using interest rate instruments. However, in reality this interest rate is greatly affected by economic turmoil. So, sometimes this interest rate becomes one of the triggers for an economic crisis that occurs in a country. Therefore, Islamic monetary policy is one of the answers to these problems. In Islamic monetary policy, there is no known interest system. The instruments used in Islamic monetary policy are also different from monetary policy in general because they are not familiar with the interest system. However, precisely with the unknown interest system, make Islamic monetary policy more resistant to economic turmoil so that in the end the ultimate goal of monetary policy can be achieved and will be able to become a new tool in maintaining economic stability. The formulation of the problem in this study are; a). What are Monetary Policy Instruments in Islam?, b). What is the view of the Islamic Economics School of Monetary Policy Instruments in Islam?, c). How are Islamic Monetary Policy Instruments in Indonesia?. To find out how the Islamic Monetary Policy Instruments are defined, mazhab and their implementation in Indonesia. What are Monetary Policy Instruments in Islam?, b). What is the view of the Islamic Economics School of Monetary Policy Instruments in Islam?, c). How are Islamic Monetary Policy Instruments in Indonesia?. To find out how Islamic Monetary Policy Instruments are defined, mazhab and their implementation in Indonesia. What are Monetary Policy Instruments in Islam?, b). What is the view of the Islamic Economics School of Monetary Policy Instruments in Islam?, c). How are Islamic Monetary Policy Instruments in Indonesia?. To find out how Islamic Monetary Policy Instruments are defined, mazhab and their implementation in Indonesia.

2. Research Method

This study uses the literature review method using a systematic literature review approach or often abbreviated as SLR or in Indonesian called **systematic literature review** is a literature review method that identifies, assesses, and interprets all findings on a research topic, to answer research questions that have been determined previously (Kitchenham & Charters, 2007).

The SLR method is carried out systematically by following stages and protocols that allow the literature review process to avoid bias and subjective understanding of the researchers. SLR is a literature review method commonly used by researchers in the pharmaceutical and medical fields, although it can be said that Barbara Kitchenham only started bringing it into the computing world, specifically for software engineering in 2007 through her paper entitled Guidelines in performing Systematic Literature Reviews in Software Engineering. In general, the stages of doing an SLR consist of 3 major parts: **Planning**, **Conducting** and **Reporting**. Details of each stage as in the image below

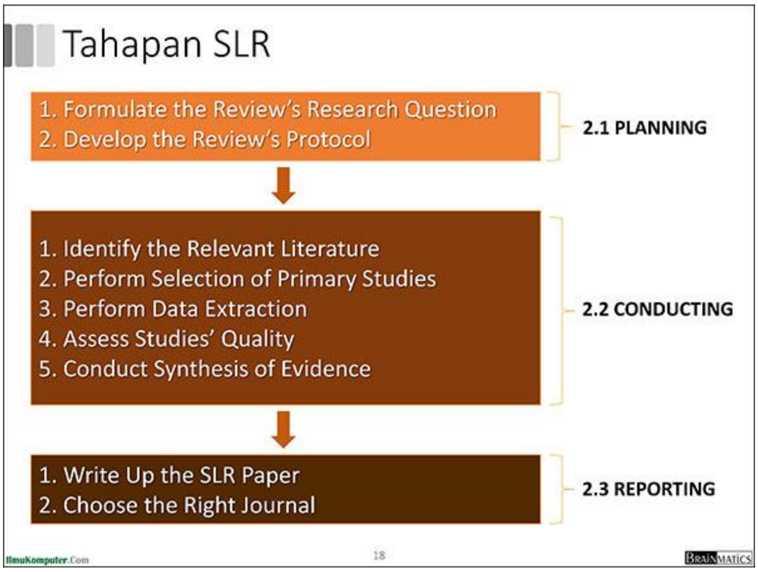


Figure 1: Research Methodology

3. Discussion

3.1. *Instruments of monetary policy in Islam*

Siamat (2005) said monetary policy with a single target, namely price stabilization (controlling the rate of inflation), generally uses a price approach. Meanwhile, monetary policy with multiple targets, namely in addition to price stabilization as well as economic growth, expansion of employment opportunities, and balance of payments, generally uses a quantity approach. In principle, the objective of Islamic monetary policy is no different from the objective of conventional monetary policy, namely maintaining currency stability (both internally and externally) so that equitable economic growth is expected to be achieved. Stability in the value of money can not be separated from the goal of sincerity and openness in dealing with humans. This is mentioned in the Qur'an in QS.Al.An'am:152 (M. R. of the R. of Indonesia, 2006)

> *It means; And do not approach the property of an orphan, except in a more beneficial way, until he is an adult. and perfect the measure and the scales with justice. We do not carry a burden on a person but only his ability. and when you say, Then you should act justly, even though he is a relative (of you), and fulfill the promise of Allah. that is what Allah has commanded you so that you may remember.*

The monetary policy formulated in an Islamic economy is to use money reserves and not interest rates, the central bank must use monetary policy to generate a growth in the circulation of money sufficient to finance potential growth in generating output. and also not too fast, but able to produce equitable welfare for the community (Naf'an, 2014). Regarding the stability of the value of money also emphasized by M. Umar Chapra (Al Quran Towards a Just Monetary System), the monetary policy framework in the Islamic economy is the stock of money, the goal must be to ensure that monetary development is not excessive but sufficient to fully exploit the capacity of the economy to offer goods and services for the general social welfare. Although the achievement of the ultimate goal is no different, in principle, sharia monetary is different from conventional ones, especially in the selection of targets and instruments. The basic difference between the two types of instruments is that sharia principles do not allow guarantees for the nominal value or rate of return (interest rates). Therefore, if it is associated with the target of implementing monetary policy, automatically the implementation of sharia-based monetary policy will not allow setting interest rates as the operational target/target (Samuelson, 1991).

The sharia monetary tool is sharia law. nearly all monetary devices for the implementation of conventional financial coverage as well as the underlying securities comprise an detail of interest. therefore, conventional instruments containing an interest detail (bank costs, mark downs, open market operations with hobby securities set earlier) can't be used inside the implementation of Islamic-primarily based financial coverage. however, a number of traditional financial policy devices in step with a number of Islamic economists can still be used to govern money and credit, which include Reserve requirements, basic and deciding on credit ceiling, moral suasion and exchange in economic base.

In Islamic economics, there may be no interest device in order that the relevant bank can not apply the discount rate coverage. Islamic imperative Banks need interest-loose instruments to manipulate financial economic policy in Islamic economics. imperative to growth or decrease the money deliver. The abolition of the interest system does no longer hinder the control of the cash deliver within the economy. Gadgets that can be applied inside the Islamic financial system can be reached with predominant devices, specifically quantitative manipulate of credit score distribution and figuring out socio-economic objectives. Quantitative manipulate of credit disbursement is supported by means of instruments such as: statutory reserve requirement; credit ceiling; government deposits; commonplace pools; moral suasion; equity-base contraptions; and exchange in the income and loss sharing ratio. in the meantime, realizing socio-monetary goalsis by using treating the created cash as fay; and purpose-oriented allocation of credit score (Muhammad, 2002). In Suprayitno (2005) book Basically, there are several monetary policy instruments in Islamic economics, including:

1. Reserve Ratio

   Reserve Ratio is a certain percentage of bank deposits that must be held by means of the vital financial institution, as an example five percent. If the principal financial institution desires to manage the cash deliver, it may increase the RR as an instance from five percentage to 20 percent, with the intention to bring about less cash closing inside the business financial institution, and vice versa.

2. Moral Suassion

   The central bank can persuade banks to increase demand for credit as their responsibility when the economy is in a depression. As a result, credit is disbursed so that money can be pumped into the economy.

3. Lending Ratio

   In Islamic economics, there is no term Lending (lending), the lending ratio in this case means Qardhul Hasan (good loans).

4. Refinance Ratio

   Refinance Ratio is a number of proportions of interest-unfastened loans. when the refinance ratio increases, the financing supplied will increase, and when the refinance ratio falls, industrial banks must be cautious because they're not encouraged to lend.

5. Profit Sharing Ratio

The profit sharing ratio must be determined before starting a business. The central bank can use the profit sharing ratio as a monetary instrument, where when the central bank wants to increase the money supply, the profit ratio for customers will be increased.

6. Islamic Sukuk

   These are government bonds, where when inflation occurs, the government will issue more sukuk so that money will flow to the central bank and the money supply will be reduced. So sukuk have the capacity to increase or decrease the money supply.

7. Government Investment Certificate

   The sale or buy of valuable bank certificate in a business framework, known as Treasury payments. This tool is issued through the Minister of Finance and sold via the important financial institution to brokers in huge quantities, in the short time period and at low hobby prices. These Treasury bills can not be common place in Islam, so the authorities issued its replacement with an interest-loose gadget, referred to as GIC: authorities device certificate.

3.2. School of Monetary Policy Instruments in Islamic Economics

Several schools of monetary policy instruments in Islamic economics, among others (Karim, 2007):

1. The first school (Iqtishaduna)

   Early days of Islam, it could be said that there may be no need for a economic policy because there may be nearly no banking gadget and the lack of use of cash. So there may be no sufficient motive to make modifications to the money supply (M^s) through discretionary coverage. in addition, credit score has no role inside the introduction of money, because credit is handiest used amongst investors and government policies concerning promissory notes and negotiation contraptions are designed in this type of way that it does not permit the credit score device to create money. Promissory Notesor invoice of alternate may be issued to buy goods and offerings or to obtain clean funds, but the letter can't be used for credit functions. The creditor can sell the letter, however the debtor can not promote cash or commodities before he gets the letter. it really is why there is no market for buying and promoting negotiable instruments, hypothesis and the use of the money market will become non-existent. So the credit machine does now not create money.

   The primary view of this college is that the money deliver is perfectly elastic, where the authorities because the holder of the financial authority is not able to steer the cash deliver. The cash deliver (Ms) is determined by means of the import-export change of products.The number of Ms in circulation will not have an impact and affect the ratio of the tough price to the cash price (Pt/P0), because with free trade and the absence of customs duties from this trade, the control of money in and out will always be balanced in value with the economic value of goods sold. traded. Ms perfect elasticity is also supported by the similarity of the value of money with its intrinsic value and the absence of a particular institution that prints money and controls it (Hud, 2009).

   These rules meet the stability among the marketplace and the cash marketplace based totally on coins transactions. In nasi'a or other Islamic transaction policies, when a commodity is bought at this time even as the price is made later, cash is paid or acquired to obtain the commodity or service. In other phrases , cash is exchanged for something that certainly provides fee to the economy. different transactions which includes gambling, usury, buying and promoting of superficial promissory notes are prohibited in Islam in order that the stability between the waft of money and items or services may be maintained. in case you appearance closely, it appears that the rate of cash in a certain period is the same as the price of goods and offerings wished in the equal time span. Other tool used right now to adjust the quantity of cash circulating and modify brief-term hobby charges, specifically the Open market Operation (thru shopping for and promoting authorities securities) truely did now not exist inside the early days of Islamic development. similarly, it is clear that the act of raising or decreasing interest rates is opposite to Islamic teachings because of the prohibition regarding usury in Islam itself.

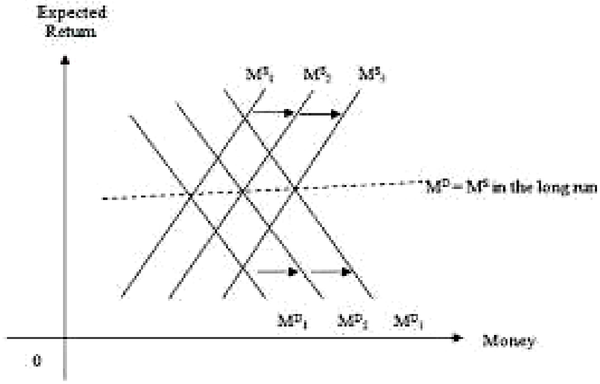
2. Second School (Mainstream)

The objective of monetary policy imposed by the government is to maximize existing resources so that they can be allocated to productive economic activities. In the Qur'an it is clear that we are forbidden to accumulate money (money hoarding) which in the end will make the money not provide benefits to improving the welfare of society as a whole. This idle wealth will make a source of funds that was originally productive to be unproductive. Therefore, this second school designed a policy instrument aimed at influencing the size of the demand for money (M^D) so that it can be allocated to increase the productivity of the economy as a whole. Call for in Islam is grouped into two motives, particularly the transaction cause and the precautionary purpose (Hud, 2009). The more money is idle, it way the call for for money just in case (M_prec^D) is getting bigger, even as the better taxes are. what is stated to idle money lies inversely with the demand for money just in case. Dues of idle discover is a cash coverage device imposed on all idle money earning assets. If the demand for money is intended to boom (M_prec^D↑) precautionary measures, the authorities's efforts to repair money demand (M^D) to the equilibrium point are with the aid of growing the dues of idle funds. The higher the dues of budget imposed on idle cash will motive people to be reluctant to preserve the idle cash. therefore, humans who have idle money will voluntarily allocate their wealth to productive investments.

The dues of idle fund device also can be used to fulfill aggregate call for (ad). policies aimed at growing Aggregative demand (ad) or to encourage the price of growth of national income can be implemented with the aid of increasing the dues of idle price range. The growth within the dues of idle price range will divert the demand for cash that was firstly supposed for the buildup of cash/effective assets to the cause of the usage of the money so that it will growth the productiveness of the cash within the real region, so that investment will growth. An increase in certain investments will bring about an growth in Aggregative demand (ad), so that a brand new general balance will circulate at a better level of countrywide earnings.

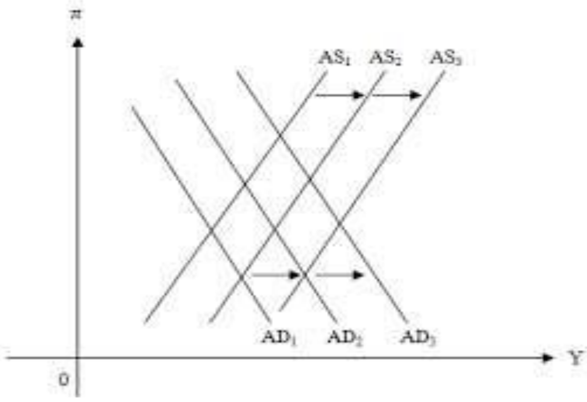
3. Third School (Alternative)

This third school of thought is very much influenced by the scientific thoughts of Dr. MA Choudhury. The monetary policy system recommended by this school is the syuratiq process, namely where a policy taken by the monetary authority is based on previous consultations with the real sector authority. -Monetary policy decisions which are then outlined in the form of monetary instruments are usually harmonization with policies in the real sector. According to this school of thought, monetary policy is repeated games in game theory where the shape of the supply and demand curve for money is like a mine that is wrapped around a positive slope due to good knowledge induced processes and information sharing. For clarity, consider the following graph:



Graph 1. Supply and Demand

According to this school, balance in the monetary sector is a derivation of balance in the real sector, while monetary sector policy is harmonization with real sector policy. Consider the following graphic illustration:



Graph 2. Monetary sector policy is harmonized with real sector policy

As Hud (2009) said in her bool shifts and movements in Aggregative Demand (AD) and Aggregative Supply (US) will result in shifts and movements in Money Demand (MD) which will then be followed up with monetary policy implemented with monetary instruments so that there will be shifts in the Money Supply (MD). if you look at conventional economic theory it is what is called Dynamic Equilibrium. An example of the above process is if there is an increase in Aggregate Demand (in the illustration from AD1 to AD2) as a result of increases in the level of consumption, or net-export, or level of investment, or level of spending. government, there will be an increase in the demand for money (in the figure from

MD1 to MD2) in the money market. The response of the Central Bank as the monetary authority, In accordance with this school where the monetary authority only issues policies that are in harmony with the real sector conditions, is to increase the money supply (in the illustration from MS1 to MS2). If there is another increase in the demand for money (MD), the monetary authority will respond in the same way, namely increasing the supply of money (MS). According to Dr. MA Choudhury, harmonization between the real sector and the monetary sector results in a long-term curve of MS and MD in the form of a mine braid, which supports national growth (Y).

3.3. Islamic Monetary Control Instruments in Indonesia

Monetary policy can use instruments either directly or indirectly. Direct instruments are control instrumentsmonetary policy that can directly affect the operational targets desired by the central bank. The indirect instruments are monetary control instruments that can indirectly affect the operational targets desired by the central bank. The two main things that are controlled are the price (interest rate) and the quantity of deposits and credits that exist in the banking system or financial institutions other than banks. This direct control can be exercised through direct policies issued by the central bank or by influencing the balance sheets of commercial banks. This control is calleddirectly because there is a correspondence relationshipone-to-one' between instruments and operational objectives. For example, setting a credit limit can directly affect the amount of domestic credit that can be disbursed by banks, which in turn will affect the money supply.

Meanwhile, the indirect instrument is an attempt to control the monetary amount by influencing the bank's balance sheetcentral. One thing that is important in indirect instruments is that the central bank can influence the positionbase moneyaknowbank reserve which in turn can affect credit and the money supply (Alexander,et al., 1995). This method is called indirect because the central bank achieves its policy objectives by influencing money market conditions through one of its functions as an agency that has the authority to circulate money by influencing the conditions underlying the demand and supply of money. In addition, efforts to control the monetary amount are carried out by influencing the central bank's own balance sheet, especially the items on the liability side, namelyreserve moneywhich in turn will be able to affect interest rates broadly and the quantity of money and credit in the entire banking system (Gray,et al., 2000), for example the minimum mandatory reserve. The existence of differences in principles between Islamic economics and conventional economics associated with the problem of the interest device (pre-determined charges) has implications for the remedy of a monetary policy layout which could accommodate both of these topics and remains inside a complete economic policy framework. The twin banking gadget in Indonesia need to prioritize consistency among sharia contraptions and traditional instruments and be aware of the principle of equality for both kinds of banking (Bayuni, Eva Misfah, Srisusilawati, 2018).

As a country that implements a twin monetary system, Indonesia also conducts monetary coverage via OMS or Sharia economic Operations. Sharia economic Operation is the implementation of financial coverage by using financial institution Indonesia within the context of economic control through open marketplace operations and the supply of standing facilities based on sharia ideas. The goals of CSOs areachieve the operational goal of sharia monetary manipulate so that you can help the achievement of the very last goal of financial institution Indonesia's economic policy. CSO activities are carried out through Sharia Open Market Operations and Sharia Standing facilities (B. Indonesia, n.d.). Financial institution Indonesia makes use of monetary gadgets in an effort to attain operational goals that have an effect on the primary goal of monetary policy in Indonesia, namely inflation. The twin economic gadget implemented in Indonesia makes traditional economic contraptions go hand in hand with Islamic financial contraptions. The purpose of this look at is to provide an explanation for monetary instruments in line with sharia in Indonesia and to find out the contribution of monetary devices in sharia to inflation manipulate in Indonesia (Bayuni, Eva Misfah, Srisusilawati, 2018).

To influence the money supply, BI uses several monetary control instruments, either directly or indirectly, as follows:

1. Direct monetary control instruments
   a. Decrease in the value of money
   b. Direct credit
2. Indirect monetary control instruments
   a. Statutory Reserve Requirement
   b. Discount Facility (Interest Rate)
   c. Open Market Operations (OPT)
      Nopirin (2000) explained includes the act of selling and buying securities by the central bank. The following are some of the instruments used in Open Market Operations in Indonesia, namely:
      1) Bank Indonesia Certificate (SBI)
      2) Bank Indonesia Syariah Certificate (SBIS)
      3) Money Market Securities (SBPU)
      4) Reverse Repo – State Sharia Bank Certificate (RR-SBSN)
      5) Certificate of Deposit
      6) Commercial Paper
      7) Call Money
      8) Money Orders and Promissory Notes
      9) Repurchase Agreement
      10) Bill of Exchange
      11) Banker's acceptance
   d. Bank Indonesia Deposit Facility (FASBI)
   e. Moral Exhortation

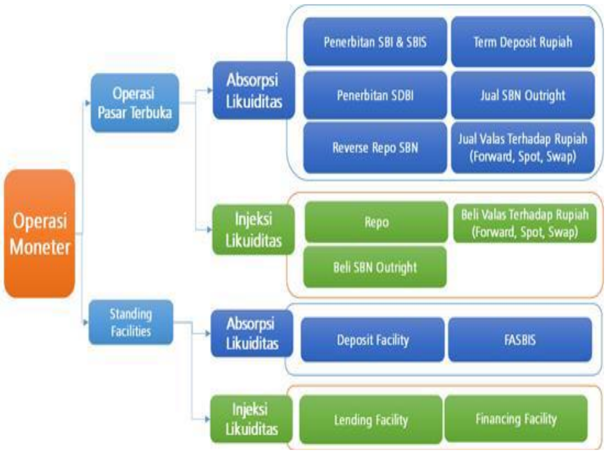


Figure 2. Instruments of BI monetary control

The development of the Islamic banking industry in Indonesia has emerge as a wonderful gain for the Indonesian monetary gadget. As the highest economic authority, BI has mounted several Islamic monetary manipulate units that manage the sustainability of the Islamic banking industry. some of the units distinctive are contraptions which have the identical function as inside the conventional banking machine. but, its rules are set according with sharia provisions.

The following is the definition of Islamic monetary instruments applied in Indonesia:

1. SBIS Bank Indonesia Syariah Certificates, hereinafter abbreviated as SBIS, are short-term securities based on sharia principles in Rupiah currency issued by Bank Indonesia.
2. Reverse RepoState Sharia Securities, hereinafter abbreviated as RR-SBSN, or can be called State Sukuk, are state securities issued based on sharia principles, as evidence of the share of participation in SBSN assets denominated in Rupiah.
3. Bank Indonesia Syariah Deposit Facility, hereinafter abbreviated as FASBIS, is a facility provided by Bank Indonesia to Islamic commercial banks, sharia business units of rupiah and foreign exchange money market brokers to place their funds at Bank Indonesia in Rupiah.
4. The Minimum Statutory Reserves (GWM) for Islamic banks is determined in accordance with BI provisions and the Moral Suassion for Islamic banking has more or less the same meaning as that used by BI for conventional banking.
5. PUAS or Sharia Interbank Money Market is a lending and borrowing activity between one bank that has excess liquidity and another bank that requires liquidity. PUAS transactions can have maturities from one working day (overnight) to one year.

3. Conclusion

Instruments that can be carried out within the Islamic economy can be reached with predominant gadgets, namely quantitative manage of credit distribution and realizing socio-economic objectives. Quantitative control of credit score disbursement is supported via instruments inclusive of: statutory reserve requirement; credit score ceiling; authorities deposits; commonplace swimming pools; ethical suasion; equity-base instruments; and alternate inside the income and loss sharing ratio. in the meantime, figuring out socio-financial goalsis by treating the created money as fay; and aim-oriented allocation of credit. Several schools of monetary policy instruments in Islamic economics, among others: a. The First School (Iqtishaduna)The main view of this school is that the money supply is perfectly elastic, where the government as the holder of the monetary authority is unable to influence the money supply. The money supply (Ms) is determined by the import-export trade of goods. b. Second School (Mainstream)

The objective of monetary policy imposed by the government is to maximize existing resources so that they can be allocated to productive economic activities. c. Third School (Alternative)According to this school, balance in the monetary sector is a derivation of balance in the real sector, while monetary sector policy is harmonization with real sector policy. Indonesia as a rustic that implements a dual monetary gadget, Indonesia additionally conducts financial coverage through OMS or Sharia economic Operations. Sharia monetary Operation is the implementation of financial coverage with the aid of financial institution Indonesia inside the context of monetary manage through open market operations and the supply of status centers primarily based on sharia ideas. The goals of CSOs areachieve the operational goal of sharia financial manage so that it will aid the achievement of the very last target of bank Indonesia's monetary coverage.

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