

Contemporary Islamic Monetary Instruments and Their Implementation in Indonesia

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Abstract

This paper examines contemporary Islamic monetary policy instruments implemented in Indonesia within the dual banking system framework established by Law No. 10 of 1998. Key instruments discussed include the Statutory Reserve Requirement (GWM), Mudharabah Investment Certificates among Islamic Banks (Sertifikat IMA), Bank Indonesia Sharia Certificates (SBIS), and Bank Indonesia Sharia Deposit Facilities (FASBIS), all based on Sharia contracts such as *ju'alah* and *mudharabah* that replace conventional interest-bearing instruments. The theoretical framework reviews three Islamic monetary policy schools of thought from the early Islamic period to the mainstream and alternative approaches emphasizing consultation between monetary authorities and the real sector. Empirical data from Bank Indonesia highlight the utilization and regulation of these instruments. The study concludes that the application of Islamic monetary instruments fosters monetary stability and supports the growth of the Islamic financial sector, aligning with Indonesia's increasing demand for Sharia-compliant financial services.

Keywords: Islamic monetary instruments, Sharia contracts, Bank Indonesia Syariah Certificates, statutory reserve requirement, Islamic finance, monetary stability.

INTRODUCTION

Monetary policy is an effort to control macroeconomic conditions so that they run as desired by regulating the amount of money circulating in the economy. This effort is carried out to achieve price stability and an increase in equilibrium output. Almost all sectors of the capitalist economy are linked to the interest rate system, so that the monetary sector develops more rapidly than the real sector. This is because the monetary sector provides profits more quickly than the real sector (Muhammad, 2018: 207).

Monetary policy is an instrument of the Central Bank that is deliberately designed to influence financial variables such as interest rates and money supply. The goal is to maintain the stability of the currency against both internal and external factors. In principle, the objectives of Islamic monetary policy are no different from those of conventional monetary policy, namely to maintain the stability of the currency (both internally and externally) so that the desired equitable economic growth can be achieved. Stability in currency value is inseparable from the goals of sincerity and openness in human relations (Muhammad, 2018: 208). The main difference between conventional and Islamic monetary systems is that Islam does not recognize interest rates because the Qur'an clearly states that usury is strictly prohibited or haram.

Monetary policy managed by the central bank (Bank Indonesia) focuses more on managing a country's money supply and inflation rate. The amount of money circulated by the central bank will certainly adjust to the economic capacity of a nation. The central bank can implement an expansionary monetary policy or, conversely, a contractionary monetary policy. Basically, central bank policy will be adjusted to the policies implemented by the government. When the government wants higher economic growth by increasing government spending, the central bank will compensate for this with an expansionary monetary policy. This policy mix is expected to increase the amount of money in circulation, thereby increasing people's purchasing power and boosting their welfare (Harianto & Widayaswara, 2016).

Sharia monetary instruments consist of open market operation instruments, namely SBIS (Sharia Bank Indonesia Certificates), Sharia Government Securities Reverse Repo, Repo, and standing facilities, namely Sharia Bank Indonesia Deposit Facilities (FASBIS) and Financing

Facilities. During 2017, Islamic monetary operations were still dominated by FASBIS instruments, although SBIS transactions increased significantly. Islamic repo instruments, which have been in effect since 2014, are still not being used optimally. In the context of liquidity management by Islamic banks, the instruments used are mostly securities owned and placed with Bank Indonesia for short periods in the tradable category. This is reflected, among other things, in the dominance of securities owned, especially SBSN, and placements with Bank Indonesia that have the lowest rates of return, especially FASBIS with a term of 2-4 days (www.ojk.go.id, 2018).

Bank Indonesia, as the central bank, requires special instruments that are in accordance with the sharia principles that form the basis of Islamic banking operations. The first Islamic commercial bank in Indonesia, Bank Muamalat, was established at the end of 1991 and began operating in 1992, but Islamic monetary instruments were later issued by Bank Indonesia in 2000, in the form of Bank Indonesia Wadiah Certificates (Sertifikat Wadiah). Bank Indonesia - SWBI (Auwalin & Sukmana, 2012).

To date, the placement of Islamic commercial bank assets at Bank Indonesia as monetary instruments has not experienced a significant increase, as shown in Table 1 below.

Table 1 Data on Sharia Bank Asset Placements at Bank Indonesia 2018-2019

Placement at Bank Indonesia	Year 2019 Semester 1					
	Jan	Feb	Mar	Apr	May	Jun
Placement at Bank Indonesia	30,348	31,297	29,510	35,428	30,709	29,969
a. Current Account	13,699	15,632	15,123	15,708	15,458	15,412
b. SBIS	5,105	4,880	4,305	4,545	4,555	4,485
c. FASBIS	10,913	8,534	8,094	13,012	9,051	8,477
d. Others	632	2,250	1,988	2,162	1,645	1,595

Placement at Bank Indonesia	2018 Semester 2					
	Jul	Aug	Sep	Oct	Nov	Dec
Placement at Bank Indonesia	30,348	31,297	29,510	35,428	30,709	29,969
a. Current	13,699	15,632	15,123	15,708	15,458	15,412
b. SBIS	5,105	4,880	4,305	4,545	4,555	4,485
c. FASBIS	10,913	8,534	8,094	13,012	9,051	8,477
d. Others	632	2,250	1,988	2,162	1,645	1,595

Table 1 shows that BUS asset placement does not increase significantly each month, but rather experiences ups and downs. This is also due to the profits of Islamic banks.

In the Islamic monetary system, these targets can only be achieved through monetary instruments that are consistent with Islamic teachings. Therefore, in this paper, the author will discuss contemporary monetary instruments.

METHOD

A qualitative, descriptive-analytical study that uses secondary data from Bank Indonesia and literature review to examine the implementation and theoretical foundations of Islamic monetary policy instruments in Indonesia.

RESULTS AND DISCUSSION

Indonesia implemented a dual banking system after the enactment of Law No. 10 of 1998. A dual banking system is the simultaneous operation of conventional banks and Islamic banks. The issuance of Law No. 23 of 1999 gave Bank Indonesia the responsibility to regulate, supervise, and develop Islamic banking in Indonesia. The growth of Islamic banks in Indonesia has been rapid due to the increasing public demand for Islamic financial products and services and the full support of the government since the emergence of the Islamic financial industry in Indonesia.

The dual monetary system in Indonesia has prompted Bank Indonesia to also issue Sharia Bank Indonesia Certificates (SBIS) as a monetary instrument to complement Bank Indonesia Certificates (SBI), which have been used by conventional banks. SBIS are securities issued by Bank Indonesia in order to increase the effectiveness of the monetary transmission mechanism based on sharia principles. SBIS has been issued by Bank Indonesia since 2008 based on the *Jua'lah* contract. This monetary instrument was issued to replace the previous sharia monetary instrument, namely the Bank Indonesia Wadiah Certificate (SWBI). The rules regarding SWBI and SBIS are explained in DSN MUI number 36 in 2002 and DSN MUI Number 64. The fundamental difference lies in the contract used; SWBI uses a *wadi'ah* contract, while SBIS uses a *ju'alah* contract. In SWBI instruments with a *wadi'ah* contract, Bank Indonesia does not set a fixed return on SWBI placements, but only provides returns on a voluntary basis. In SBIS monetary instruments with the *ju'alah* contract, Bank Indonesia is obliged to provide compensation at a predetermined value for funds placed in SBIS, because the placement of funds in SBIS is a form of participation by Islamic banks to assist Bank Indonesia in monetary control. As monetary instruments, SBI and SBIS have their own transmission channels to the real sector, whereby these instruments will affect the amount of financing and distribution to the real sector (Septindo, Novianti, & Lubis, 2016).

Fundamentally, there are several monetary policy instruments in Islamic economics, including: (Muhammad, 2018: 214)

- 1) Reserve Ratio. This is a certain percentage of bank deposits that must be held by the central bank, for example 5%. If the central bank wants to control the amount of money in circulation, it can increase the RR, for example from 5 percent to 20 percent, which will result in less money remaining in commercial banks, and vice versa. In Indonesia, the average mandatory reserve ratio reported in August 2019 was 6%. Reserve ratio data is updated monthly with an average of 5% (ceicdata.com, 2019).
- 2) Moral persuasion. The central bank can persuade banks to increase credit demand as their responsibility when the economy is in a state of depression. The impact is that credit is disbursed so that money can be pumped into the economy, or monetary policy can be used to regulate the amount of money in circulation by issuing appeals to economic actors. For example, appealing to banks that provide financing to be careful in issuing financing in order to reduce the amount of money in circulation, and appealing to banks to borrow more money from the central bank in order to increase the amount of money in circulation in the economy.
- 3) Financing Ratio. The central bank determines the financing ratio used by commercial banks in disbursing financing.
- 4) Refinance Ratio. A certain proportion of interest-free loans. When the refinance ratio falls, commercial banks must be cautious because they are 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, whereby when the central bank wants to increase the amount of money in circulation, the profit ratio for customers will be increased.
- 6) Islamic sukuk. Government participation (conventionally known as government bonds), whereby when there is inflation, the government will issue more sukuk so that money will flow to the central bank and the amount of money in circulation will be reduced. Thus, sukuk has the capacity to increase or decrease the amount of money in circulation.
- 7) Government Investment Certificate. The sale or purchase of central bank certificates in a commercial framework is referred to as Treasury Bills. This instrument is issued by the Minister of Finance and sold by the central bank to brokers in large quantities, in the short term and with low interest rates. These Treasury Bills are not accepted in Islam, so as a substitute, the government issues them with an interest-free system, called GIC (Government Instrument Certificate).

Several Schools of Thought on Monetary Policy Instruments in Islamic Economics, including:

- 1) First School of Thought (Iqtishaduna). In the early days of Islam, it can be said that monetary policy was not necessary due to the virtual absence of a banking system and minimal use of money. Therefore, there was no adequate reason to make changes to the money supply through discretionary policy. In addition, credit did not play a role in money creation, as credit was only used among traders, and government regulations on promissory notes and negotiable instruments were designed in such a way that the credit system could not create money (Karim, 2015).

Promissory notes or bills of exchange can be issued to purchase goods and services or to obtain a certain amount of fresh funds, but these notes cannot be used for credit purposes. Creditors can sell these notes, but debtors cannot sell money or commodities before they receive the notes. Therefore, there is no market for buying and selling negotiable instruments, speculation, and the use of the money market. Thus, the credit system does not create money. These rules fulfill the balance between the market and the money market based on cash transactions. In nasi'a or other Islamic transaction rules, when commodities are purchased now and payment is made later, money is paid or received to obtain commodities or services. In other words, money is exchanged for something that truly adds value to the economy.

Other transactions such as gambling, usury, and superficial promissory notes are prohibited in Islam so that the balance between the flow of money and goods or services can be maintained. If observed carefully, it appears that the circulation of money in a certain period is equal to the value of goods and services required in the same time frame. Other instruments currently used to regulate the amount of money in circulation and short-term interest rates, namely Open Market Operations (through the sale and purchase of government securities), clearly did not exist in the early days of Islam. In addition, raising or lowering interest rates clearly contradicts Islamic teachings due to the prohibition of usury in Islam itself.

- 2) Second School of Thought (Mainstream). The objective of monetary policy implemented by the government is to maximize existing resources so that they can be allocated to productive economic activities (Karim, 2007). The Qur'an clearly states that we are prohibited from hoarding money, which ultimately prevents it from contributing to the overall welfare of society. Such idle wealth will render funds that were initially productive unproductive. Therefore, the second school of thought designs a policy instrument aimed at influencing the level of money demand so that it can be allocated to increasing overall economic productivity.
- 3) Third School of Thought (Alternative). According to Karim (2015), this third school of thought is heavily influenced by the scientific ideas of Dr. M.A. Choudhury. The monetary policy system recommended by this school of thought is the syuratiq process, whereby policies taken by monetary authorities are based on prior consultation with real sector authorities. Thus, monetary policy decisions that are then translated into monetary instruments are usually harmonized with policies in the real sector.

The application of Sharia monetary policy instruments in Indonesia is as follows:

- 1) Minimum Reserve Requirement (GWM). The minimum reserve requirement (GWM), also known as the statutory reserve requirement, is the minimum amount of funds that commercial banks must hold in the form of demand deposits at BI, the amount of which is determined by BI based on a certain percentage of third parties. GWM is a bank's obligation in order to support the implementation of prudential banking principles and acts as a monetary instrument that functions to control the amount of money in circulation (Muhammad, 2018: 217). The amount of GWM is 5% of third party funds in the form of IDR (Rupiah) and 3% of third party funds in the form of foreign currency. This amount

is calculated from the daily average in a reporting period for the previous reporting period. Meanwhile, third-party funds refer to:

- a. Giro Wadiah
- b. Mudharabah Savings
- c. Mudharabah Investment Deposits and
- d. Other Liabilities

Third-party funds in IDR do not include funds received by the bank from Bank Indonesia and BPR. Meanwhile, third-party funds in foreign currencies include liabilities to third parties, including banks and Bank Indonesia, which consist of:

- a. Wadiah Current Account
- b. Mudharabah Investment Deposits
- c. Other obligations.

BI imposes fines for errors and delays in submitting weekly reports used to determine the GWM. Banks that commit violations are also subject to sanctions for both minimum and negative deficiencies (Karim, 2015: 234).

The provisions of the Minimum Reserve Requirement instrument, which was first issued in 2000 through Bank Indonesia Regulation Number 2/7/PBI/2000 concerning Minimum Reserve Requirements in Rupiah and Foreign Currency for Commercial Banks Conducting Activities Based on Sharia Principles, became the starting point for the application of the GWM instrument to Islamic banking. This then became a form of support for Islamic banking in terms of monetary stability and the principle of prudence in banking. Then, in 2004, Bank Indonesia again issued provisions related to GWM through Bank Indonesia Regulation Number 6/12/PBI/2004, which then revoked Bank Indonesia Regulation Number 2/7/PBI/2000 concerning Minimum Reserve Requirements in Rupiah and Foreign Currency for Commercial Banks Conducting Business Activities Based on Sharia Principles (Juhro, et al., 2018: 183).

A further adjustment was made on October 5, 2006, through Bank Indonesia Regulation Number 8/23/PBI/2006 concerning Amendments to Bank Indonesia Regulation Number 6/21/PBI/2004 concerning Minimum Reserve Requirements in Rupiah and Foreign Currency for Commercial Banks conducting Business Activities Based on Sharia Principles. In 2013, Bank Indonesia issued Bank Indonesia Regulation Number 15/16/PBI/2013, which replaced Bank Indonesia Regulation Number 8/23/PBI/2006 concerning Minimum Reserve Requirements in Rupiah and Foreign Currency for Commercial Banks conducting Business Activities Based on Sharia Principles. This was done in view of the importance of meeting the liquidity needs of Islamic banking in order to maintain financial sector stability and anticipate various potential risks arising from economic dynamics, as well as the transfer of functions, duties, and authorities in banking regulation and supervision from Bank Indonesia to the Financial Services Authority effective December 31, 2013. (Juhro, 2018: 184-185)

- 2) Mudharabah Investment Certificates between Islamic Banks (IMA Certificates). IMA Certificates are instruments used by Islamic banks with excess funds to earn profits and, on the other hand, as a means of providing long-term funds for Islamic banks with insufficient funds. This certificate is valid for 90 days and is issued by the head office of the Islamic bank in a format and with terms and conditions set by Bank Indonesia (BI). The transfer of IMA Certificates can only be carried out by the first investing bank, while the second investing bank is not permitted to transfer them to other parties until the end of the term. Payment will be made by the issuing Islamic bank in the nominal value plus profit sharing (paid at the beginning of the following month by credit note through clearing, Bank Indonesia (BI) giro bills, or electronic transfer) (Karim, 2015: 234).
- 3) Bank Indonesia Sharia Certificate (SBIS). The Bank Indonesia Sharia Certificate (SBIS) is a Sharia-based security with a short term in rupiah issued by Bank Indonesia. As stated in Article 3 of Bank Indonesia Regulation Number 10/11/PBI/2008 concerning Bank Indonesia

Sharia Certificates, SBIS issued by Bank Indonesia use a sale contract. SBIS is a replacement for Bank Indonesia Wadiah Certificates (SWBI), which are considered not yet fully capable of being an optimal monetary control instrument. In addition, with the presence of SBIS with a sale contract, it is considered to be able to optimize monetary control. Furthermore, with the presence of SBIS with a sale contract, it is considered to be able to optimize monetary control and sharia banking liquidity management by promising certain rewards (reward/iwadh/ju'l) for sharia banks. This participates in monetary control through the placement of liquidity at Bank Indonesia (Juhro, et al., 2018: 197).

- 4) Bank Indonesia Sharia Deposit Facility (FASBIS). To strengthen the Monetary Operations framework, Bank Indonesia issued Bank Indonesia Sukuk as one of the Monetary Operations instruments based on sharia principles. To support the implementation of Monetary Operations based on sharia principles, it is necessary to expand the underlying assets not only using SBSN but also by including global sukuk owned by Bank Indonesia as underlying assets of Bank Indonesia Sukuk. In addition, the implementation of monetary operations based on sharia principles is continuously being refined to strengthen the basis of monetary operation transactions, resulting in improvements to the Indonesian Sharia Bank Deposit Facility (FASBIS) contract, which originally used the wadi'ah contract, to become ju'alah in accordance with the opinion of the National Sharia Council - Indonesian Ulema Council (DSN-MUI). In this regard, it is necessary to make a third amendment to Bank Indonesia Regulation Number 20/5/PBI/2018 concerning Monetary Operations. The placement of rupiah funds (deposit facility) in Sharia Standing Facilities is carried out through a mechanism whereby Bank Indonesia accepts the placement of rupiah funds from participants in Sharia Standing Facilities without issuing securities. The placement of rupiah funds (deposit facility) is carried out, among other things, in the form of Bank Indonesia Sharia Deposit Facilities (FASBIS) using the Jua'alah contract.

CONCLUSION

Several Sharia monetary policy instruments implemented in Indonesia include Minimum Reserve Requirements (GWM), Mudharabah Investment Certificates between Sharia Banks (IMA Certificates), Bank Indonesia Sharia Certificates (SBIS), and Bank Indonesia Sharia Deposit Facilities (FASBIS). These instruments are based on Islamic contracts such as ju'alah and mudharabah, which are in accordance with Islamic principles and replace conventional instruments that contain elements of usury.

Theoretically, Islamic monetary policy schools of thought have three approaches: first, in the early days of Islam, monetary policy was not necessary due to the lack of a banking system; second, the mainstream school of thought focuses on optimizing the use of resources for a productive economy; third, the alternative school of thought emphasizes deliberation between monetary authorities and the real sector in decision-making.

The application of these instruments supports monetary stability and the growth of the Islamic financial sector in Indonesia, in line with the increasing public demand for financial services based on Islamic principles and the continued strengthening of policy support by the government and Bank Indonesia.

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