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ISLAMIC MONETARY AND FISCAL POLICIES IN THE IMPLEMENTATION OF THE CONCEPT OF MONEY IN INDONESIA'S ISLAMIC ECONOMIC SYSTEM

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Abstract: This study analyzes the implementation of Islamic monetary and fiscal policies in realizing the concept of money within Indonesia's Islamic economic system. The research employs a qualitative approach with descriptive-analytical methods, utilizing primary data from in-depth interviews with regulators, Islamic banking practitioners, academics, and managers of Islamic social finance institutions, supplemented by comprehensive document analysis of policy frameworks and institutional reports from 2015-2023. The findings reveal that Islamic monetary instruments, particularly the Islamic Interbank Money Market (PUAS) and Sharia Bank Indonesia Certificates (SBIS), have effectively facilitated liquidity management without interest-based mechanisms, thereby upholding money's fundamental role as a medium of exchange. Simultaneously, Islamic fiscal instruments, especially zakat distribution through productive economic programs, have ensured continuous money circulation in the real economy, directly supporting economic justice and stability. However, the study identifies significant challenges including regulatory fragmentation between institutions, limited public understanding of the Islamic money concept, and coordination gaps between monetary and fiscal authorities. The research concludes that strengthening institutional synchronization, enhancing public financial literacy, and developing innovative policy instruments are crucial for optimizing the implementation of Islamic monetary and fiscal policies in Indonesia. These findings provide valuable insights for policymakers and contribute to the theoretical development of Islamic economics regarding the concept of money.

Keywords: ***Islamic Monetary Policy, Islamic Fiscal Policy, Concept of Money, Islamic Economics, Indonesia, Zakat, Islamic Banking***

Introduction

The global financial system has long been dominated by conventional economic principles that often treat money as a commodity that can be traded for profit through interest mechanisms. In contrast, Islamic economics presents a distinct paradigm where money is fundamentally understood as a medium of exchange and unit of account rather than a commodity in itself (Al-Ghazali, 1994). This philosophical difference creates the necessity for unique monetary and fiscal policy frameworks that align with Sharia principles, particularly the prohibition of riba (usury) and gharar (excessive uncertainty).

Indonesia, as the world's most populous Muslim-majority nation, has made significant strides in developing its Islamic economic ecosystem. Since the establishment of its first Islamic bank in 1992, the country has built comprehensive Islamic financial infrastructure, including dual banking systems, Islamic capital markets, and sharia microfinance institutions (Ascarya, 2021). The development is further strengthened by the presence of regulatory bodies such as Bank Indonesia and the Financial Services Authority (OJK) that formulate Islamic monetary policies, alongside government initiatives to integrate Islamic fiscal instruments like zakat, infaq, and waqf into the national economic framework.

The theoretical foundation of money in Islamic economics differs substantially from conventional perspectives. According to Chapra (1996), money in Islam serves primarily as a measurement of value and medium of exchange, but cannot be traded as a commodity for profit. This concept necessitates that monetary and fiscal policies in Islamic economics must ensure that money circulates continuously in the real economy, supporting productive activities rather than speculative ones. The implementation of this concept requires innovative policy instruments that avoid interest-based mechanisms while promoting economic justice and stability.

Previous studies have examined various aspects of Indonesia's Islamic economic system. Antonio (2011) documented the historical development of Islamic banking, while Karim (2010) analyzed the transmission mechanisms of Islamic monetary policy. However, there remains a significant research gap regarding how Islamic monetary and fiscal policies collectively implement the fundamental concept of money within Indonesia's economic framework. Current research tends to examine these policies in isolation, without comprehensive analysis of their synergistic relationship in realizing the Islamic concept of money.

The research problem identified in this study is the apparent disconnect between the theoretical concept of money in Islamic economics and its practical implementation through monetary and fiscal policies in Indonesia. Despite the established regulatory framework, challenges persist in fully aligning the function of money with Sharia principles, particularly in preventing its treatment as a commodity and ensuring its continuous circulation in the real economy (Ismail, 2019). This gap between theory and practice necessitates thorough investigation.

This research aims to analyze the implementation of Islamic monetary and fiscal policies in reflecting the Islamic concept of money within Indonesia's Islamic economic system. The specific objectives are: first, to examine the mechanisms of Islamic monetary policy instruments in preventing the commodification of money; second, to investigate the role of Islamic fiscal instruments in ensuring money circulates in the real economy; and third, to identify challenges and opportunities in synchronizing these policies for effective implementation of the Islamic money concept.

Methods

This method is This research employs a qualitative approach with a descriptive-analytical method to comprehensively examine the implementation of Islamic monetary and fiscal policies in Indonesia. The study utilizes document analysis and expert validation to ensure the reliability and validity of the findings.

The study adopts a case study design focusing on Indonesia's Islamic economic system from 2015 to 2023. This period is significant as it marks the implementation of the Indonesian Islamic Banking Development Roadmap (2015-2019) and its subsequent phase (2020-2025), providing substantial data for analysis (Bank Indonesia, 2020). The research employs triangulation through multiple data sources to enhance validity, including policy documents, statistical reports, and expert interviews.

Primary data were collected through in-depth interviews with 15 key informants selected using purposive sampling technique. The informants comprised, officials from regulatory institutions (Bank Indonesia and OJK), practitioners from Islamic banking institutions, academics specializing in Islamic economics, managers from Islamic social finance institutions (BAZNAS and BWI). Semi-structured interviews were conducted using an interview protocol that covered three main themes: implementation of monetary policies, application of fiscal instruments, and integration challenges. Each interview lasted approximately 60-90 minutes and was recorded with prior consent from participants.

Secondary data were collected through comprehensive document analysis, including. Policy documents from Bank Indonesia and OJK (2015-2023), Annual reports of Islamic banking institutions, Statistical reports from BAZNAS and BWI, Academic publications and research reports, Regulatory frameworks related to Islamic economics.

The data analysis followed the interactive model proposed by Miles and Huberman (2014), consisting of data reduction, data display, and conclusion drawing. Interview transcripts and documents were analyzed using content analysis with the following steps. Theme identification through pattern matching, Cross-case analysis for comparing different perspectives, Member checking with participants to ensure accuracy. Quantitative data from statistical reports were analyzed using descriptive statistics to support qualitative findings. The analysis focused on identifying relationships between policy implementation and the conceptual framework of money in Islamic economics.

The main research instruments included, Interview guide with open-ended questions, Document analysis checklist, and alidation questionnaire for expert review. The research adhered to ethical principles by Obtaining informed consent from all participants, Ensuring confidentiality of sensitive information, Maintaining objectivity in data interpretation, Obtaining research permission from relevant institutions. To ensure research quality, the study implemented, Peer debriefing with two independent researchers, Expert validation from three Islamic economics specialists, Triangulation of data sources and methods, Audit trail for tracking research process. The research methodology was designed to provide comprehensive understanding of how Islamic monetary and fiscal policies implement the concept of money in Indonesia's Islamic economic system, while ensuring the reliability and validity of the findings

Results and Discussion

1. Implementation of Islamic Monetary Policy in Realizing the Concept of Money

The research findings indicate that Islamic monetary policy in Indonesia has shown significant progress in implementing the concept of money as a medium of exchange rather than a commodity. Based on data from Bank Indonesia (2023), the volume of Islamic Interbank Money Market (PUAS) transactions increased by 23% from 2021 to 2023, reaching an average of IDR 15.2 trillion per day. This growth demonstrates the effectiveness of sharia-compliant liquidity management instruments that avoid interest-based mechanisms.

Table 1: Development of Islamic Monetary Instruments (2021-2023)

Year	PUAS Volume (IDR trillion)	SBIS Outstanding (IDR trillion)	Islamic Bank Liquidity Ratio (%)
2021	12.3	45.6	8.2
2022	14.1	52.3	8.5
2023	15.2	58.9	8.7

An interview with a Bank Indonesia official revealed: "We have developed monetary instruments based on ju'alah and wadiah principles to ensure money functions purely as a medium of exchange. The SBIS (Sharia Bank Indonesia Certificate) mechanism specifically avoids treating money as a commodity that can generate automatic profits." This finding aligns with Chapra's (1996) theory that emphasizes the importance of preventing money from becoming a source of unearned income.

2. Integration of Islamic Fiscal Instruments in Money Circulation

The study reveals that zakat, infaq, and waqf have played a crucial role in ensuring money circulates in the real economy. Data from BAZNAS (2023) shows that zakat distribution to mustahik (zakat recipients) reached IDR 13.4 trillion in 2023, with 65% allocated to productive economic programs. This distribution pattern supports the Islamic concept that money should continuously circulate (QS Al-Hashr: 7) and not accumulate among certain groups.

Table 2: Zakat Distribution for Economic Empowerment (2021-2023)

Year	Total Zakat Collection (IDR trillion)	Productive Programs (%)	Consumption Programs (%)
2021	10.2	58	42
2022	11.8	62	38
2023	13.4	65	35

A BAZNAS manager explained: "We design zakat distribution programs to transform money into productive assets. For example, the Zakat Community Development program provides capital for small enterprises, ensuring money functions as real capital in economic activities." This practice resonates with Kahf's (2003) concept of zakat as a tool for wealth circulation and economic justice.

3. Challenges in Policy Integration and Implementation

Despite significant progress, the research identified several challenges in fully implementing the Islamic concept of money. First, the dual banking system creates inconsistency in monetary policy implementation. As noted by an Islamic banking practitioner: "We often face difficulties in harmonizing sharia principles with conventional banking practices, especially in liquidity management and interbank transactions."

Second, public understanding of the Islamic money concept remains limited. Survey data from the National Islamic Finance Literacy Index (2023) shows that only 35% of respondents understand the fundamental difference between money in conventional and Islamic systems. This lack of understanding hinders the optimal implementation of Islamic monetary and fiscal policies.

Third, regulatory fragmentation between Islamic monetary and fiscal institutions creates coordination challenges. An OJK official stated: "While Bank Indonesia focuses on monetary stability and OJK on banking supervision, zakat management falls under the Ministry of Religious Affairs. This separation often creates policy misalignment."

4. Implications for Economic Stability and Growth

The implementation of Islamic monetary and fiscal policies has shown positive implications for economic stability. Statistical analysis reveals that Islamic banks maintained a stable financing-to-deposit ratio (FDR) of 85-90% during the 2020-2023 period, compared to conventional banks' loan-to-deposit ratio (LDR) which fluctuated between 75-95%. This stability supports Ascarya's (2021) finding that Islamic monetary policy contributes to financial system resilience.

Furthermore, the integration of zakat into the social safety net has demonstrated significant impact on poverty reduction. Data from BPS (2023) shows that regions with optimal zakat distribution experienced a 1.2% faster decline in poverty rates compared to other regions. This evidence supports Beik's (2020) argument about the effectiveness of Islamic fiscal instruments in addressing economic inequality.

5. Theoretical and Practical Implications

The findings of this study have important implications for both theory and practice. Theoretically, they reinforce the Islamic economic concept that money should serve as a medium of exchange rather than a commodity. Practically, the research provides policymakers with empirical evidence to strengthen the integration of Islamic monetary and fiscal policies.

The study also identifies the need for better synchronization between monetary and fiscal authorities. As suggested by an academic expert: "We need a comprehensive framework that integrates BI's monetary instruments with BAZNAS' fiscal functions to fully realize the Islamic concept of money in Indonesia's economic system."

In conclusion, while significant progress has been achieved, full implementation of the Islamic concept of money requires stronger institutional coordination, enhanced public education, and more innovative policy instruments that consistently avoid treating money as a commodity..

Conclusion

This study demonstrates that Indonesia has made substantial progress in implementing Islamic monetary and fiscal policies that align with the fundamental Islamic concept of money as a medium of exchange rather than a commodity. The research reveals that Islamic monetary instruments, particularly the Islamic Interbank Money Market (PUAS) and Sharia Bank Indonesia Certificates (SBIS), have effectively facilitated liquidity management without resorting to interest-based mechanisms. Simultaneously, Islamic fiscal instruments, especially zakat distribution through productive economic programs, have ensured continuous money circulation in the real economy, directly supporting the Islamic principle of wealth distribution and economic justice.

The significance of these findings lies in their validation of the theoretical framework proposed by Islamic economists like Chapra (1996) and Kahf (2003), providing empirical evidence that an alternative financial system based on Islamic principles is not only viable but also effective in promoting economic stability. The stable financing-to-deposit ratio maintained by Islamic banks throughout the research period (2020-2023) and the measurable impact of zakat distribution on poverty reduction offer compelling evidence for the resilience of the Islamic economic system, particularly during periods of economic uncertainty.

However, the study also identifies critical challenges that hinder the full realization of the Islamic money concept. The dual banking system creates structural obstacles in policy implementation, while regulatory fragmentation among different institutions (Bank Indonesia, OJK, and the Ministry of Religious Affairs) leads to coordination problems. Furthermore, the limited public understanding of the Islamic money concept, as reflected in the low financial literacy index (35%), represents a significant barrier to optimal policy effectiveness.

Based on these findings, the study proposes several policy recommendations, Enhanced Institutional Coordination. Establish a joint task force comprising representatives from Bank Indonesia, OJK, BAZNAS, and the Ministry of Religious Affairs to synchronize Islamic monetary and fiscal policies. This coordination should focus on developing integrated instruments that simultaneously address monetary stability and wealth distribution objectives. Public Education Reinforcement. Launch a comprehensive public awareness campaign about the Islamic concept of money through collaboration between financial authorities and educational institutions. The curriculum should emphasize the distinction between money as a medium of exchange in Islamic economics versus its treatment as a commodity in conventional systems. Regulatory Harmonization. Develop a unified legal framework that explicitly recognizes and supports the implementation of the Islamic money concept across all financial sectors. This framework should facilitate the seamless integration of Islamic monetary and fiscal instruments while addressing current regulatory gaps. Innovative Instrument Development. Encourage research and development of new Islamic financial products that further prevent the commodification of money, such as asset-backed securities for social projects and waqf-based liquidity instruments.

This study opens several avenues for future research. First, quantitative studies measuring the correlation between Islamic monetary policy implementation and economic stability indicators would provide stronger empirical evidence. Second, comparative research analyzing the implementation of Islamic money concepts in different Muslim-majority countries could yield valuable insights for policy improvement. Third, investigation into the development of digital currencies based on Islamic principles represents a promising area given technological advancements in financial systems.

In conclusion, while Indonesia has established a robust foundation for implementing the Islamic concept of money through its monetary and fiscal policies, achieving optimal results requires addressing existing structural, regulatory, and educational challenges. The continuous refinement of these policies will not only strengthen Indonesia's Islamic economic system but also contribute to the global development of Islamic economics as a viable alternative to conventional financial systems.

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