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Literature Study of Monetary Instruments and Money Markets According to Sharia Principles

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Abstract

The purpose of this paper is to determine the extent to which Islamic monetary instruments are applied to banking in Indonesia. This study uses a qualitative approach by collecting journal articles that are relevant to the purpose of this study. The collected articles were analyzed for content (content analysis) and then triangulated the data to arrive at a conclusion. In his study, he stated that the only money market allowed in Islam is a money market that does not use the interest system, this is to avoid usury nasi'ah because the loss (danger) of interest is greater than the profit (mashlahah). The main findings of this study indicate that the instruments used in the policy of determining monetary control in the Islamic banking system include; Reserve Ratio, Moral Persuasion, Lending Ratio, Refinance Ratio, Profit Sharing Ratio, Islamic Sukuk, Government Instrument Certificate (GIC) with various products as policy instruments in banking for current interbank transactions in Indonesia such as Interbank Muḍarabah Certificates, Wadî'ah Certificates Bank Indonesia, Bank Indonesia Syariah Certificate (SBIS), Commodity Trading Certificate Based on Interbank Syariah Principles (SIKA) and Sharia Short-Term Financing Facility (FPJPS)

Keywords: *Islamic Economics, Policy, Monetary Instruments and Money Market*

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1. Introduction

Monetary policy is an attempt to control macroeconomic conditions so that they can run as desired by regulating the amount of money circulating in the economy. These efforts are carried out to ensure price stability and inflation as well as an increase in equilibrium output. Because monetary policy is synonymous with money. With the presence of the Islamic money market and capital market, it provides opportunities for Muslims and non-Muslims who want to invest their funds in accordance with sharia principles that provide peace and confidence in halal transactions. In order to respond to all matters relating to sharia investment as a result of the rapid development of the sharia economy throughout the world.

The monetary instrument policy is left to banks, which are currently under the auspices of Bank Indonesia. Act Number 23/1999 concerning Bank Indonesia, which has been declared effective as of May 17, 1999 and has been amended by Law of the Republic of Indonesia Number 6/2009, which provides status and position as an independent state institution in carrying out its duties and authorities, free from interference from the government and or other parties, except for matters that are expressly regulated in this law.

Operationally, controlling these monetary targets uses instruments, including open market operations on the money market, both rupiah and foreign exchange, setting discount rates, setting minimum statutory reserves, and credit or financing arrangements. Bank Indonesia can also implement monetary control methods based on Sharia Principles (Bank Indonesia, 2015). The existence of differences in principles between Islamic economics and conventional economics related to the problem of the interest system (predetermined rates) has implications for the treatment of a monetary policy design that can accommodate both of these matters and is still within a complete monetary policy framework. The design of monetary policy in the dual banking system in Indonesia should prioritize consistency between sharia instruments and conventional instruments and pay attention to the principle of equality for both types of banking. As a country that implements a dual monetary system, Indonesia also conducts monetary policy through OMS or Sharia Monetary Operations. Sharia Monetary Operations (Bank Indonesia, 2015) 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 objective of the CSO is to achieve the operational target of sharia monetary control in order to support the achievement of the final target of Bank Indonesia's monetary policy. CSO activities are carried out through Sharia Open Market Operations and Sharia Standing facilities.

Monetary control instruments in the conventional economic system have proven to be inefficient and not more stable than monetary control instruments in the Islamic economic system (Bayuni, E.M. & Ascarya, 2009). The application of sharia monetary instruments that are directly side by side with conventional monetary instruments has a significant impact on controlling inflation (price stability) in Indonesia. However, in fact how the contribution of Islamic monetary instruments partially to inflation control is not known for sure. Therefore, researchers feel it is important to conduct a literature search that focuses on Islamic monetary instruments, in this study the author will specifically discuss how Islamic monetary instruments are applied to banking in Indonesia. Through this paper, the author tries to provide an overview of the Islamic money market and capital market in Indonesia, in the form of products or instruments, characteristics, mechanisms, and developments.

2. Literature Review

2.1. Bank Indonesia as a Monetary Authority

Bank Indonesia as the Central Bank has the mandate to achieve a low and stable inflation rate, the mandate is explicitly stated in Article 7 paragraph (1) of Law No. 3 of 2004 concerning Bank Indonesia which states that the goal of Bank Indonesia is to achieve and maintain the stability of the rupiah value. The objective of Bank Indonesia is closely related to the implementation of a monetary policy strategy called inflation targeting. (Natsir, 2014). The monetary policy strategy aimed at carrying out the mandate of achieving the target of rupiah value stability (price stability) can be seen from 2 (two) aspects, namely internal and external aspects. The internal aspect in question is the stability of the rupiah against goods and services as reflected in the development of the inflation rate. Meanwhile, the external aspect in question is the stability of the value of the rupiah against the currencies of other countries as measured by the development of the value of the rupiah against the currencies of other countries.

The stability of the value of the Rupiah is very important to support sustainable economic development and improve people's welfare. For this reason, Bank Indonesia changed its monetary policy strategy from monetary targeting to inflation targeting. This means that since then Bank Indonesia has carried out a new mandate to replace the old, unrealistic mandate carried out by the Central Bank, namely expanding job opportunities, economic growth, reducing unemployment and stability in the foreign exchange market. (Mishkin, 2004). Theoretically, the change in strategy is closely related to the statement that in the long run an increase in the money supply only affects price increases (inflation) and has no effect on increasing output (GDP). So the conclusion is that the inflation domain is considered very relevant to be carried out by Bank Indonesia as the monetary authority in Indonesia. (Satria, Dias, 2008: 69)

With the change in monetary policy operations from stabilization with monetary targeting to stabilizing inflation targeting (inflation targeting framework) with the ultimate goal of monetary policy being to achieve and maintain stability in the value of the rupiah as reflected in a low and stable inflation rate, Bank Indonesia set the interest rate. the reference interest rate (BI rate) is based on the intended inflation rate as a guide for the market. BI rate is a policy rate as a benchmark interest rate (benchmark). The impact of the BI rate is felt in the implementation of monetary operations by Bank Indonesia through the management of liquidity in the market. The instrument is the overnight interbank money market interest rate (the O/N PUAB interest rate). For banks, PUAB is an alternative way or source of daily liquidity fulfillment. It is through interbank lending transactions, which are mostly short term, that monetary policy signals are transmitted to other instruments on the financial market, such as deposit and credit interest rates. In addition, changes (increases) in the BI rate can also be used to attract foreign funds (capital inflow), which at the same time can increase foreign exchange liquidity in the country.

2.2. Sharia Banking in Indonesia

According to Law No. 10 of 1998, a sharia bank is a bank that carries out its business activities based on sharia principles which in its activities provides services in payment traffic. (Muhamad. 2015). From the results of the international consensus (ijma) of Muslim economists and fiqh experts from the Fiqh Academy in Mecca in 1973, they concluded that the basic concept of economic relations based on Islamic sharia in the form of an Islamic economic system can actually be applied in the operations of bank financial institutions and non-bank financial institutions bank. The application of this concept was realized with the emergence of Islamic financial institutions in Indonesia. Ten years since the promulgation of State Institutions, Law Number 7 of 1992 concerning Profit Sharing Banking, which was revised by Law no. 10 of 1998, Islamic banks and non-bank financial institutions quantitatively grew rapidly.
Islamic banks can withdraw funds from third parties or the public in the form of:

a. Deposits (wadî'ah) are deposits that are guaranteed security and return (guaranteed deposits) but without receiving any compensation or profit.
b. Capital participation is profit sharing and risk sharing (non guaranteed account) for general investment (general investment account or muḍarabah mutlaqah) where the bank will pay a proportionate share of the profits with the portfolio funded with that capital.
c. Special investment (special investment account or muḍarabah muqayyadah) where the bank acts as an investment manager to earn a fee. So the bank does not participate in investing while investors fully take the risk of the investment.

Thus the sources of Islamic bank funds consist of:

a. Core Capital
b. Quasi equity (muḍarabah account)
c. Deposits (wadî'ah) or deposits without compensation (non remunerated deposits)

Broadly speaking, the economic relationship based on Islamic sharia is determined by the contract relationship which consists of five concepts of contract. Based on these five concepts, Islamic banks can implement products of Islamic bank financial institutions and non-Islamic financial institutions that can be operationalized. (Karnaen Perwataatmadja and Muhamad Syafi'i Antonio. 1992) The five concepts are:

a. Pure Savings Principle (al-Wadî'ah) The principle of pure savings is a facility provided by Islamic banks to provide opportunities for those who have excess funds to save their funds in the form of al-Wadî'ah. The al-Wadî'ah facility is provided for investment purposes in order to gain profits such as savings and time deposits.
b. Profit Sharing (asy-Syirkah) This system is a system that includes procedures for sharing business results between the fund provider and the fund manager. The distribution of the results of this operation can occur between the bank and the depositor of funds, or between the bank and the customer receiving the funds.
c. The principle of buying and selling (at-Tijârah) This principle is a system that applies the procedures for buying and selling, where the bank will first buy the goods needed or appoint the customer as a bank agent to make purchases on behalf of the bank, then the bank sells the goods to the customer. with the purchase price plus profit (margin).

Principle of Lease (al-Ijârah) This principle is broadly divided into two types:

a. Ijârah, pure lease, as well as rental of product equipment (operating lease).
b. Bai' at ta`jîri or ijârah almuntahiya bi at-tamlîk is a combination of lease and purchase, where the lessee has the right to own the goods at the end of the lease period (financial lease).
d. The principle of service or fee (al-`Ajr) This principle covers all non-cash financial services provided by banks. Products based on this principle include Bank Guarantees, Clearing, Inkaso, Services, Transfers, and others.

2.3. History of Islamic Monetary Policy

The Quraysh had a monetary system and policy, although it was still in a simple form. Over time, when Caliph Umar r.a. ruled Islam in 634 – 644 AD, there were several changes made at that time. Some of the policies set by Caliph Umar r.a. in regulating the monetary sector, among others:

a. Islam forbids everything that will have an impact on increasing volatility in purchasing power, and instability in the value of money, for example: the prohibition of money trading, namely the prohibition of usury, the prohibition of hoarding, and strict supervision of inflation and the settlement of the effects of inflation.
b. Prohibition of dealing with counterfeit money.
c. Protecting inflation by encouraging people to invest money, spending modestly, and prohibiting excessive and wasting money.

d. Monetary unification through the printing of dirhams in accordance with Islamic provisions, which is six daniq.

The monetary policy of the Prophet was always related to the real sector of the economy. The result is growth as well as stability. Sheikh Abdul Qadim Zallum said that the monetary or financial system is a set of rules for procurement and financial regulation in a country. the most important thing in any finance is the determination of the basic financial unit to which all values of various currencies are ascribed. (Pratikto, 2012)

The Arab economy at the time of the Prophet Muhammad was not a barter economy, even far from it. Foreign exchange from Persia and Rome was known by all levels of Arab society, and even became an official means of payment. In order to maintain economic stability, the following are prohibited, namely:

a. Unreal requests. The demand for money is only for transactional purposes and just in case.
b. Currency hoarding.
c. Talaqqi rukban transactions, namely intercepting sellers from villages outside the city to take advantage of price uncertainty.
d. Multi-time transactions, which are not cashless transactions. Cash transactions are allowed but future transactions without goods are prohibited.
e. All forms of usury.

Islam does not recognize inflation because the currencies used are dinars and dirhams which have a stable value and are justified in Islam. In Heri Pratikto's book (2012: 196) Sheikh Taqyuddin An-Nabhani gives several reasons why the appropriate currency is gold, namely:

a. When Islam prohibits the practice of hoarding wealth, Islam only specifies the prohibition for gold and silver, even though wealth includes all items that can be used as wealth.
b. Islam has linked gold and silver with standard and unchanging laws. When Islam requires diyat then what is used as a measure is in the form of gold.
c. Rasulullah has set gold and silver as currency and he made only gold and silver as the standard of money.
d. The laws regarding currency exchange that occur in money transactions are only carried out with gold and silver, as well as other transactions are only stated in gold and silver.

During the caliphate the prevailing currency was gold and silver. The ratio of the circulation of dinars to dirhams of 1:10 was only valid until the time of the four caliphs. After the fourth caliphate period, this ratio continued to change in various Islamic countries from 1:35 to 1:50. The instability of this ratio indicates that people prefer to save in the dinar currency and use the dirham as a transaction tool so that the circulation of the dinar is getting smaller. Finally, over time the two metal standards fell out of universal use due to fluctuations.

Then began the single metal era with gold as the universally accepted currency standard. The standard gold currency is known in three variations, namely:

a. Gold coin standard is a monetary system in which gold coins are actively circulating in the community as a standard medium of exchange.
b. Gold bullion standard is a monetary standard with the following provisions:
1) National currency is equivalent to gold
2) Gold is kept by the government in the form of bars or bars
3) Gold is not circulating in the economy
4) Gold is available for industrial purposes and international transactions from banks
c. The standard gold exchange, also known as the Bretton Woods System, is an international agreement in the monetary sector in which currency is fiat money that can be converted into gold at a certain price level.

4. Islamic Perspective Monetary Policy

In Islamic monetary management, to achieve economic stability there are several things that serve as guidelines, including:

a. Money for productive investment

Monetary management based on interest rates affects the fulfillment of basic needs and equitable distribution of income. The rich generally use funds not only for productive investment purposes but also for the consumption of luxury goods as symbols of social status and also for speculation. Of course, conventional economic activities cannot be separated from interest rates which tend to reduce the demand for money for activities to fulfill basic needs and productive investments and increase the demand for money for non-productive and speculative activities which ultimately result in the failure of achieving the country's economic development goals. In Islam, the demand for money must be directed at efforts for productive investment and return the motive for the demand for money to its true function.

b. Money request

Islamic monetary management is an efficient and fair monetary management not based on the interest rate mechanism, but using three main instruments, namely:

1) Value judgments that can create an atmosphere that allows the allocation and distribution of resources in accordance with Islamic teachings. Based on Islamic values, the demand for money must be used to meet basic needs and productive investments, not at all for excessive consumption, non-productive and speculative expenditures.
2) Institutions related to socio-economic and political activities, one of which is to be able to create a price mechanism and increase efficiency in resource utilization.
3) The mechanism of financial intermediary institutions operating based on a profit sharing system. In this system the demand for money for the use of money is allocated on condition that it is only for useful projects and only to debtors who are able to manage projects efficiently.

By not allowing the element of interest in Islamic economics, the central bank cannot apply the policy of the benchmark interest rate (BI rate) in managing liquidity for the market. It is also not possible to apply the instruments used in conventional monetary policy, such as discount rates.

The Islamic Central Bank requires an interest-free instrument to control its monetary economic policy. In this case, there are several interest-free instruments that the central bank can use to increase or decrease the money supply. Basically, there are several monetary policies in Islamic economics, including:

a. Moral Suasion
   A policy that contains an appeal to all commercial banks to invite caution in providing loans.
b. Lending ratio.
   Policy to provide loans, Lending Ratio in this case which means Qarul Hasan (loans of kindness).
c. Profit Sharing.
d. Profit-sharing ratio that must be determined before starting a business. The Central Bank uses policy in monetary policy. Where when the central bank increases the amount of money in circulation, the benefits for customers also increase

e. Reserve Ratio.

Is a certain percentage of bank deposits that must be held by the central bank, for example 3%. If the central bank wants to control the money supply, it can increase the Reserve Ratio, for example from 5 percent to 18%, which will result in less money remaining in commercial banks, and vice versa.

f. Refinance Ratio.

Is a number of proportions of interest-free loans. When the refinance ratio increases, the financing provided increases, and when the refinance ratio falls, commercial banks must be careful because they are not encouraged to lend.

g. Government Instrument Certificate.

It is an open market operating instrument for monetary control policies in an Islamic perspective where this method introduces two instruments that are in accordance with sharia, namely CMC (The Central Bank Musharaka Certificate) and GMC (Government Musharaka Certificate).

1) CMC (The Central Bank Musharaka Certificate). Is a security based on a profit sharing system with the following characteristics: has no maturity date, equity-based a certain amount of business and government investment in commercial banks, Has a uniform nominal value which is proportional to the accounting value of the total investment amount divided by the number of CMC issued, can be traded by the owner in the secondary market through standard administrative procedures, while in the primary market the seller is through an auction
2) GMC (Government Musharaka Certificate). It is an instrument that allows the government to raise funds through the issuance of securities promising investors a pre-negotiated return on the basis of their investment in a pool of government assets that take the form of holdings in publicly traded companies or joint ventures that are profitable in their operations. Broadly speaking, the uses of GMC are: for budget financing, open market operating instruments for business people, mobilizing national savings, encouraging investment, as a tool for developing money markets in accordance with Islamic law.
3) Ijara Certificate/Islamic Sukuk (SUKUK). These are securities intended to mobilize long-term deposits that are used for the construction of long-term infrastructure projects carried out through securities of

tangible government assets such as roads, factories, schools, and others. This sukuk is a financial instrument that represents three basic agreements, namely: asset purchase agreement, lease agreement, asset sale agreement. According to the provisions of the OJK Islamic Banking Department (2017) that other instruments that are alternative Islamic bank investments developed by the capital market include:

a. Muḍarabah Sharia Bonds are based on a mudaraba contract where the profits are distributed to investors (bond holders) in accordance with the results obtained by the issuer.
b. Sharia Ijarah Bonds are based on an ijarah contract where the investor acts as Mujir (the lessor) while the issuer is the mustajir (the lessee).
c. Sharia mutual funds are mutual funds whose investments are placed in sharia-compliant portfolios, such as sharia bonds and shares that are listed according to sharia criteria.
d. According to the OJK Sharia Banking Department (2017), the current policy instruments in banking for interbank transactions in Indonesia include:
e. Interbank Muḍarabah Certificates are Islamic interbank money market instruments that can only be sold once to other banks with profit sharing according to the agreement.
f. Bank Indonesia Wadî'ah Certificate is an instrument of Bank Indonesia to absorb excess liquidity in banking.
g. Bank Indonesia Syariah Certificate (SBIS) is a certificate issued by Bank Indonesia based on a ju'alah contract.
h. Commodity Trading Certificates Based on Interbank Sharia Principles (SIKA) are certificates issued by Islamic banks in managing their liquidity that are traded between banks.
i. Sharia Short Term Financing Facility (FPJPS) is a Bank Indonesia facility for sharia banking to cover mismatches.

Meanwhile, commodity trading certificates based on interbank sharia principles (SiKA):

a. Based on the fatwa of the MUI National Sharia Council (DSN). Bank Indonesia issued regulations regarding the use of sharia commodities as an instrument in the Islamic interbank money market (PUAS). This provision is manifested in a BI circular regarding commodity trade certificates based on interbank sharia principles (SiKA).
b. The SiKA transaction involves three elements. First, Commercial Participants, namely BUS, UUS and Foreign Banks that run sharia-based businesses with excess liquidity. Second, Commodity Consumers, namely BUS, UUS which require liquidity and issue SiKA. Third, the Jakarta Futures Exchange (BBJ).
c. SiKA Transaction Mechanism: Commercial participants purchase commodities on the Exchange from Commodity Traders Participants in cash and receive an Approved Commodity Control Letter (SPAKT). Then the Commodity Consumer buys the commodity on the Exchange from the Commercial Participant for the transaction. Commodity Consumers receive SPAKT and provide SiKA. Commodity Consumers sell commodities on the stock exchange to Commodity Trader Participants in cash with a bai' contract in the amount of the nominal value of the commodity as stated in the SPAKT.

3. Research methods

This study uses a literature study approach to answer the research objectives. The literature study conducted in this study is a form of research conducted by collecting journal articles with themes in accordance with the research objectives, namely monetary instruments and money markets according to sharia principles. This research collects relevant journal articles and then conducts content analysis. The essence of a content analysis is to find out the content and intent of a text. Content analysis is a research technique to produce an objective and systematic description of the content contained in the media under study (Zuchdi, 1993). Content analysis in this study is interpreted as a systematic technique to analyze the meaning of messages and how to express messages related to the problems faced by Islamic financial and banking institutions in fulfilling their objectives in the perspective of Islamic economics in the literature that is the study of this research.

The content analysis technique is carried out by carrying out three main stages, namely the first stage of data reduction where data obtained from journal articles is reduced, summarized, selected main things and focused on important things and arranged systematically according to research objectives so that data become easier to understand and control. The two data displays are displaying the information obtained as a result of data reduction which allows for conclusions to be drawn and data collection in accordance with the research objectives. Third, Drawing Conclusions or Verification in which the researcher looks for the meaning of the data collected and draws more basic conclusions in accordance with the research objectives (Moleong, 2006: 289).

4. Results and Discussion

4.1. Result

Based on the results of a literature search in the 2010-2020 period, 20 relevant articles were found. Furthermore, the researchers conducted a content analysis of each journal article based on the research objectives by taking a number of studies that had the content referred to in answering the objectives of this study. The researcher conducted a review of the content of existing journal articles and found a classification of articles starting from the first articles discussing monetary policy in a sharia perspective, both monetary instruments and money markets according to sharia principles and the third is the concept of money markets and capital markets according to sharia perspectives.

The first classification of articles that discuss monetary policy in a sharia perspective starts from a journal article by Anisa Noviasari (2012) in her research explaining whether conventional bank interest rates move according to policy interest rates and profit sharing / margin / fees, Islamic banks move to follow profit sharing / margin / policy fees in the short term, as well as looking at the comparison of the speed of transmission of conventional and sharia monetary policies, and how to formulate an effective dual monetary policy to achieve equitable and fair public welfare. The results show that in the short term the speed of transmission of monetary policy in conventional banking is relatively stronger than monetary policy in Islamic banking. Inflation is more influenced by variables in conventional banking. Most of the effects of inflation are influenced by the Conventional Interbank Money Market (PUAB). This is because the Interbank Money Market (PUAB) is the first medium for transmitting monetary policy. For the sharia variable, which has a major effect on inflation and the effectiveness of a monetary policy is influenced by the SBIS variable. The implication of SBIS is that more people invest in Islamic banking, SBIS will increase and aggregate demand will increase, so people's income will grow. Thus, monetary policy for 'reducing inflation' with the Sharia pattern is more effective than the conventional pattern. From this research, it is hoped that the government and monetary authorities will make regulations that can become an umbrella of protection for the development of Islamic banking in the future.

Zein (2015) in a study that describes what and how the transmission mechanism of Islamic monetary policy in Indonesia. The results of the study found that the monetary policy carried out by the central bank through the transmission mechanism aims to influence real economic activity and prices. The monetary policy transmission mechanism will work through various instruments, including: interest rates, monetary aggregates, credit, exchange rates, asset prices, and expectations). As the executor of monetary policy, BI has a goal to maintain and maintain the stability of the value of the rupiah. To achieve this goal, BI applies a monetary policy framework with inflation as the main target of monetary policy (inflation targeting framework) by adhering to a free floating exchange rate system. Operationally, the monetary policy stance is reflected by the determination of the interest rate policy (BI rate) which is expected to affect money market interest rates, deposit rates and bank lending rates. These interest rate changes will ultimately affect output and inflation. Therefore, the mechanism by which BI rate changes affect inflation is referred to as the monetary policy transmission mechanism. Based on Law Number 23 of 1999 concerning Bank Indonesia, BI was given new responsibilities as a dual monetary authority. Therefore, the transmission of monetary policy is growing. This is as a result of the change in the variables that affect the transmission of conventional monetary policy (interest rates, Bank Indonesia Certificates (SBI), PUAB, credit, etc.) into variables that affect the transmission of Islamic monetary policy (Islamic bank Indonesia certificates (SBIS). , Islamic interbank money market (PUAS), financing, profit sharing, etc.).

Based on the Islamic concept, money belongs to the community (public goods). Hoarding of money or activities that do not produce money will result in a reduced money supply, so that the economic process will be hampered. On the other hand, the accumulation of money/wealth will encourage people to be greedy and lazy, and will have an impact on the sustainability of the economy. With regard to monetary policy, in principle, the objectives of sharia monetary policy are no different from conventional monetary, namely maintaining currency stability (both internally and externally) so that the expected economic growth can be achieved. Although the ultimate goal of the two systems is the same, in principle the implementation is clearly different, especially regarding the instruments used to achieve the final goal. The basic difference between the two types of instruments used lies in the sharia principle which does not allow the application of guarantees to the nominal value and rate of return (interest rates). However, the Islamic monetary system implements profit and loss sharing. The size of the profit sharing obtained by the customer depends on the size of the profit obtained by the bank from investment and financing activities in the real sector. That is, if investment and production in the real sector are smooth, the return on the monetary sector will increase. In the Islamic financial system, the balance between real economic activity and the money supply needs to be maintained. Because high activity in production and distribution will increase the money supply, while sluggish economic activity will result in low turnover and the money supply. One of the instruments used to maintain a balance between real economic activity and the level of money supply is through a sharia-based banking system.

Furthermore, Latifah (2015) conducted a study that aims to find out how monetary policy is in the perspective of Islamic economics. This study provides an overview of monetary policy in the view of Islamic economics, where monetary policy is a government policy to improve the state of the economy through regulating the money supply. Monetary policy can be classified into two, namely: Expansive monetary policy and contractionary monetary policy. Basically, there are several monetary policy instruments in Islamic economics, including: Reserve Ratio. Moral Suassion, Lending Ratio, Refinance Ratio, Profit Sharing Ratio, Islamic Sukuk, Government Investment Certificate, Mutual Funds.

Hery Purwanto (2017) in his journal article which aims to analyze monetary control policy from the perspective of Islamic banking where Islamic banking is a formulation of the big concept of the Islamic economic system. The results in this study are to explain the instruments used in the policy of determining monetary control in the Islamic banking system, among others; Reserve Ratio, Moral Persuasion, Lending Ratio, Refinance Ratio, Profit Sharing Ratio, Islamic Sukuk, Government Instrument Certificate (GIC) with various products as policy instruments in banking for current interbank transactions in Indonesia such as Interbank Muḍarabah Certificates, Wadî'ah Certificates Bank Indonesia, Bank Indonesia Syariah Certificate (SBIS), Commodity Trading Certificate Based on Interbank Syariah Principles (SIKA) and Sharia Short-Term Financing Facility (FPJPS).

Aisyah and Nurmala (2019) This article provides an overview of the actualization of Islamic monetary policy in Islamic macroeconomics. The results of this article explain that interest is a problem that causes economic instability, in Islamic finance the monetary sector has a dependence on the real sector. The functions of the central bank in the perspective of Islamic economics include: 1) producing and distributing money with the coordination of the government seeking internal and external stability. 2) as a supervisor for existing financial institutions and 3) managing the state financial system so that it is always stable and directed.

The classification of the two articles discussing monetary instruments and money markets according to sharia principles starts from a journal article by Rifki Ismali (2011) examining Islamic monetary instruments as an approach to central bank monetary operations. It is assumed that the central bank may not transact with uncertain project returns (assets) and its main monetary policy target is to stabilize the economy by taking advantage of the excess (idle) liquidity in the economy. This theoretical study is useful for the central bank from assessing the use of each proposed Islamic monetary instrument with respect to the objectives of monetary operations. Based on Islamic values, Islamic monetary instruments can contribute to stabilizing the economy. Instead of storing excess liquidity, Islamic monetary instruments employ and use them in real business activities and share the output (income) based on the contribution of each party. In this paper, the central bank has four different options of Islamic monetary instruments depending on the target of Islamic monetary operations. However, unlike conventional monetary operations, Islamic monetary operations do not create extra liquidity (creation of fiat money) but instead activate economic activities by utilizing unused (excess liquidity) in the economy. In practice, every Islamic monetary instrument has the impact of monetary expansion and contraction because its purpose is to utilize idle funds (activate the economy), generate a return on investment and manage liquidity in a certain period of time. To select the appropriate Islamic monetary instrument, the central bank must have accurate time management between monetary contraction and monetary expansion in certain economic conditions of excess liquidity or liquidity shortage.

The journal article by Setiarso (2011) investigated to prove empirically how the three monetary policy instruments (Open Market Operations, Interbank Money Markets and Reserve Requirements) with a dual monetary system influence the volume of base money. This research was conducted during the economic crisis in Indonesia so that in a relatively fast pace each monetary policy is expected to overcome monetary stability in Indonesia, so this study will not look at the Time Lag Monetary Policy in terms of whether the policy is effective in the short term or long term. The results of this study confirm that monetary instruments such as (SBI), Interbank Money Market (PUAB) and Statutory Reserves (GWM) And from the side of Islamic Banking such as Bank Indonesia Wadiah Certificates (SWBI), Sharia Interbank Money Markets (PUAS) which do not recognize bank interest (Profit Sharing System) and Sharia Banking Minimum Statutory Reserves (GWMs) in the dual monetary system together have a significant effect on base money volume. Partially, Monetary Instruments SBI and Statutory Reserves have a significant effect on base money volume, while monetary instruments PUAB, SWBI, PUAS and Statutory Reserves have no significant effect on base money volume. This research is important in providing understanding to Bank Indonesia to encourage the development of the role of Islamic Banking towards a more real direction, especially in supporting the development of MSME businesses, because the profit sharing system is more appropriate and is in great demand by small and medium entrepreneurs. This is because small entrepreneurs generally have small business turnover and small risks.

Ajuna (2017) argues about monetary policy instruments and the application of Islamic monetary policy instruments in several countries including Indonesia. Indonesia in implementing its sharia monetary policy instruments is carried out by Bank Indonesia in accordance with its function as the central bank, with instruments such as (1) Minimum Statutory Reserves (GWM) is a minimum deposit of commercial banks in the form of demand deposits with BI, the amount of which is determined by BI based on a certain percentage. from third party funds. Third party funds referred to are as follows: wadiah demand deposits, mudharabah savings, mudharabah investment deposits, other liabilities. (2) Sharia Interbank Mudharabah Investment Certificate (IMA Certificate): namely the instrument used by Islamic banks that experience excess funds to gain profits. On the other hand, it is used as a means of providing short-term funds for Islamic banks that experience a shortage of funds. (3) Bank Indonesia Wadiah Certificate (SWBI): namely Bank Indonesia instruments in accordance with Islamic sharia. SWBI can also be used by Islamic banks with excess liquidity as a means of depositing short-term funds.

Desi Nurmaida (2018) in her journal which aims to analyze the effect of the inflation rate, Islamic Interbank Money Market (PUAS) transactions and sharia investment on the yield of Bank Indonesia Sharia Certificates (SBIS). The data used is time series data for the period January 2012 - December 2017 published by Bank Indonesia and the Financial Services Authority (OJK). The research concluded that the results of the unit root test (Unit Root Test) show that the time series data (time series) for the inflation variable (X_1), the Islamic Interbank Money Market (PUAS) transaction variable (X_2), the Islamic investment variable (X_3) and the yield variable of Bank Indonesia Syariah Certificates (SBIS) (Y) in Indonesia for the period 2012-2017 did not experience unit root problems or all stationary data. Based on the results obtained, Indonesian Islamic Banking should continue to pay attention to every movement of macroeconomic variables, especially the inflation rate because the movement of macroeconomic variables, especially the inflation rate, has an effect on changes in Islamic Interbank Money Market transactions (PUAS) and yields on Bank Indonesia Syariah Certificates (SBIS) in every year.

Eva Misfah Bayuni, and Popon Srisusilawati (2018) this study describes monetary instruments according to sharia in Indonesia and determines the contribution of monetary instruments in sharia to inflation control in Indonesia. The results of the research are sharia monetary instruments implemented in Indonesia, namely Bank Indonesia Sharia Certificates (SBIS), Reverse Repo of State Sharia Securities, Bank Indonesia Sharia Deposit Facilities (FASBIS), Statutory Reserves (GWM) at Sharia Banks and PUAS or Islamic Bank Interbank Money Market. Inflation control in Indonesia according to Sharia is by using sharia monetary instruments which have a function to regulate the money supply (M2) in accordance with the Islamic banking industry in Indonesia. Therefore, monetary policy in order to control inflation in Indonesia is also carried out with sharia monetary instruments. Both expansionary and contractionary monetary policy.

Fitri Zaelina (2018) in her journal which aims to identify the process of Islamic monetary transmission in Indonesia. The research conducted explains that the transmission line of Islamic monetary policy with the final goal of output shows the continuity of the yield path from the SBIS reference margin to the output. Output (IPI) responded positively to SBIS, PLS, Financing shocks while output (IPI) responded negatively to PUAS shocks. All variables BIRATE, SBIS, PUAS, PLS and FINC contribute to economic growth and reduce inflation.

The next article from Dida Nurhaida (2018) this research is designed to analyze the preferences of market participants in choosing Islamic Interbank Money Market (PUAS) instruments, by conducting surveys and in-deph interviews with market participants, namely the key person in the Treasury section at 7 (seven) Islamic Bank. The results of the study explain that liquidity instruments in the Islamic interbank money market are still very minimal in variants, including 1) Interbank Mudharabah Investment Certificate

(SiMA); 2) Commodity Trading Certificate Based on Interbank Sharia Principles (SiKA); and 3) Repurchase Agreement (Repo) of State Sharia Securities (SBSN) with Bank Indonesia. Of the three liquidity instruments in the Islamic interbank money market, only SiMA is frequently transacted. Some of the reasons why SiMA is in great demand are that this instrument is the most widely offered, the SiMA mechanism is not complicated, the calculation of profit sharing is simple and the bookkeeping is easier and the SiMA is relatively easy to operate, especially in terms of settlement compared to Sharia Repo and SiKA which require underlying assets. .

Evan Hamzah Muchtar and Siti Najma (2019) in their journal explain the application of the Islamic financial system in the money market. In this study, the application of the Islamic sharia financial system on the money market is contained in Islamic money market instruments, including: Sharia Bank Indonesia Certificates (SBIS), SBIS Repurchase Agreements (Repo), State Sharia Securities (SBSN), SBSN Repurchase Agreements (Repo) and the Sharia Interbank Money Market (PUAS).

Zainul Hadi, Mansur Afifi, and Taufiq Chaidir (2020) in their journal which aims to analyze the response of monetary policy instruments through conventional and sharia instruments to inflation in Indonesia and analyze the length of time taken by the transmission of monetary policy through conventional and sharia instruments to inflation in Indonesia. . The results of the research in this journal are the time period required by the transmission of monetary policy through conventional and sharia instruments to achieve the final goal of inflation for 3 months. Based on the results of the impulse response function (IRF) that RSBI, RPUAB, CREDIT, GWMK, SBIS and PUAS responded positively to inflation even though at the beginning of the period it was still unstable and starting from the sixth to the tenth period it had reached balance. Meanwhile, the two shariah instruments, FINANCING and GWMK, responded negatively to inflation. Based on the analysis of variance decomposition in the model, both RSBI, RPUAB, CREDIT, GWMK, SBIS, FINANCING SATISFIED and GWMK have small average contributions. Inflation itself has a greater contribution.

The classification of the three articles discussing the concept of the money market and capital market according to the sharia perspective starts from the journal article by Ismawati (2016) conducting an overall study, specifically relating to money market law in the perspective of economics and Islamic law (muamalat), in order to obtain clear legal certainty. and firm for Muslims. In his study, he stated that the only money market allowed in Islam is a money market that does not use the interest system, this is to avoid usury nasi'ah because the loss (danger) of interest is greater than the profit (mashlahah). In addition, because Islam prohibits the buying and selling of money as a commodity or speculation. Because in the interbank money market based on sharia principles it is not permissible to use interest, it can be replaced by using other alternative contracts such as: First: Mudharabah, namely a business cooperation contract between two parties where the first party (malik, shahib al-maal) provides all capital, while the second party („amil, mudharib, customer) acts as the manager, and the business profits are divided between them according to the agreement stated in the contract. Second: Musyarakah, which is a cooperation agreement between two or more parties for a particular business, in which each party contributes funds (capital) on the condition that the profits and risks will be shared in accordance with the agreement. Third: al-Qardh, which is a financing agreement to certain customers with the stipulation that the customer is obliged to return the funds received to the Islamic financial institution at the time agreed upon by the Islamic financial institution and the customer Fourth: Wadiah (deposit of money, goods and securities)), namely the contract of one person to another by entrusting an object to be properly guarded (as is customary). Fifth: al-Sharf (foreign exchange buying and selling)

Sri Ramadhan (2016) conducted a study that aims to provide an understanding of the money market and capital market in the perspective of Islamic economics. Where in his research found that the overall concept of the Islamic capital market with the conventional capital market is not much different. Because the main instruments traded in the Islamic capital market and the conventional capital market are shares. Although in the Islamic capital market, issuers whose shares are traded must move in sectors that do not conflict with Islam, but this does not distinguish the substance and nature of shares in the conventional capital market. Furthermore, regarding the assessment of the concept of the Islamic capital market itself, which is related to shares as the main instrument in the Islamic capital market, sharia does not allow stock trading. Likewise, issuing shares with the aim of increasing the company's capital, buying shares for investment purposes and trading them to take profit (capital gain) from the difference in price (margin) is a vanity activity in Islam.

Urbanus Uma Leu (2016) in his research which aims to analyze various problems in the Islamic money market. The results of the analysis of this study indicate that when money functions as value and quality in inter-bank transaction activities, both Islamic banks and Islamic interbanks with conventional banks will open up great opportunities for speculation in transactions, especially transactions in the short term because of the impact of aborting participants. who are slow to make decisions on transactions or loss of business opportunities due to insufficient capital when changes in exchange rates occur, the time and amount of changes are difficult to predict

Tuhfa (2017) conducted research with the aim of providing an overview of the Islamic money market and capital market in Indonesia, in the form of products or instruments, characteristics, mechanisms, and developments. The results in this study The money market is an absolutely necessary tool for the banking world, not to mention Islamic banking, to secure and maintain its liquidity. Therefore, Islamic banks must have a sharia-based money market (PUAS). The Islamic interbank money market (PUAS) tool is a Sharia Interbank Mudharabah Investment Certificate (IMA) which pays the return with a profit-sharing system. This certificate may only be issued by a bank that uses sharia principles. The Islamic capital market can be interpreted as activities in the capital market as regulated in the Capital Market Law that do not conflict with sharia principles. Therefore, the Islamic capital market is not a separate system from the capital market system as a whole. In general, the activities of the Islamic Capital Market are not different from those of the conventional capital market, but there are some special characteristics of the Islamic Capital Market, namely that the products and transaction mechanisms do not conflict with sharia principles.

Bhaswarendra Guntur Hendratri (2017) in his research that discusses the Islamic money market is a mechanism that allows Islamic financial institutions to use market instruments with mechanisms that are in accordance with sharia principles both to overcome the problem of lack of liquidity and excess liquidity. In his research, he explained that Islamic money market instruments differ in principle from conventional money markets. The instruments include Bank Indonesia Sharia Certificates, SBIS Repurchase Agreements (Repo), State Sharia Securities (SBSN), SBSN Repurchase Agreements (Repo), Sharia Interbank Money Markets (PUAS) and other securities of high quality and easy to liquidate.

4.2. Discussion

From the findings of 20 articles relevant to the content of monetary instruments and money markets according to sharia principles, it can be discussed into several parts, namely: monetary policy in sharia perspective, monetary instruments and money market according to sharia principles and money market and capital market concepts according to sharia perspective.

1. Monetary policy in sharia perspective

Monetary policy is a policy implemented by the Central Bank or Monetary Authority in the form of controlling monetary amounts and or interest rates to achieve the desired development of economic activity (Warjiyo and Solihin, 2003). Monetary policy is part of macroeconomic policy and has a very related relationship. Monetary policy is directed at achieving inflationary stability and creating a financial system that can carry out the intermediation function in a balanced manner. Monetary policy affects the real and financial sectors through the mechanism of various transmission lines of monetary policy, namely the money channel, credit, interest rates, exchange rates that take place through the banking system (Warjiyo, 2004).

Monetary policy emerged since the emergence of a separate monetary authority from the fiscal authority. The monetary authority developed in line with the development of the central bank from the circulation bank (issuing fiat money) which was marked by the emergence of the Bank of England (BOE) in 1694. Because paper money was inflatoir (because it had no intrinsic value), the task of the central bank developed including regulating the amount of money in circulation to control currency values or inflation.

According to Chapra (2000) the variable that will be used in a monetary policy formulated in an Islamic economy is money reserves. The Islamic central bank should pursue its monetary policy to produce a growth in the circulation of money sufficient to finance the potential growth in output over the medium and long term within the framework of stable prices and other Islamic socioeconomic goals. The aim is to ensure that monetary expansion is not insufficient or excessive, but sufficient to fully exploit the capacity of the economy to supply goods and services for broad-based welfare.

The monetary policy mechanism according to Chapra (2000) is not only to regulate the supply of money so that it is in balance with the real demand for money, but also to help meet the need to finance real government deficits and other socio-economic goals of Islamic society.

The following are 6 elements of the monetary policy mechanism according to Chapra.

1. Targeted growth in the money supply and monetary base;
2. Public shares against show deposits (demand deposits);
3. Official mandatory reserves;
4. Credit limiter;

5. Value-oriented credit allocation;
6. Other techniques, such as buying and selling shares and profit-sharing certificates to replace government bonds in market operations, refinancing ratios, and lending ratios.

In relation to monetary policy, in principle, the objective of sharia monetary policy is to maintain currency stability (both internally and externally) so that the expected economic growth can be achieved. The stability of the value of money in question, has been described by Allah in the letter al-An'am verse 152. Meanwhile, regarding the stability of the value of money, Umar Chapra in "The Qur'an Towards a Just Monetary System" explains that the monetary policy framework in Islam is the stock of money. The goal should be to ensure that monetary development is not excessive, but can exploit the economy for social welfare.

The implementation of the instruments used in sharia monetary policy is that it does not allow the application of guarantees to the nominal value and rate of return (interest rates). However, the Islamic monetary system implements profit and loss sharing. The size of the profit sharing obtained by the customer depends on the size of the profit obtained by the bank from investment and financing activities in the real sector. That is, if investment and production in the real sector are smooth, the return on the monetary sector will increase. So it can be concluded that the monetary sector is a reflection of the real sector.

Like the theory of the Islamic economic system, Islamic finance does not recognize interest rate instruments and applies a profit and loss sharing system. The size of the profits obtained by Islamic banking customers is determined by the size of the profit sharing obtained by banks from investment and financing activities carried out in the real sector, so that the monetary sector has a dependence on the real sector. If investment and production in the real sector go well, the return on the monetary sector will also increase. The rationale for Islamic monetary management is to create stability in the demand for money and direct it to an important goal, namely productive activities. Thus, any instrument that leads to instability and the allocation of unproductive sources of funds will be abandoned. The goal is to ensure a monetary expansion that is appropriate, but sufficiently capable of generating adequate growth and can produce equitable welfare for the community. The targeted growth rate must be sustainable, realistic and cover the medium and long term.

2. Monetary instruments and money market according to sharia principles

From several articles that discuss related to monetary and money market instruments in accordance with sharia principles. Monetary policy instruments in Islam can be grouped into two broad groups, namely (a) Quantitative Control on the distribution of funds and (b) Methods that can ensure that the allocation of financing can take place properly in useful and productive sectors.

Quantitative control on lending can be in the form of; First. Statutory reserve requirements. This instrument in Islamic economics is an important instrument because discount rates and open market operations cannot apply. Commercial banks are required to place a portion of their funds originating from demand deposits at the central bank as a statutory reverse. This reserve requirement only applies to demand deposits, not to mudarobah deposits, because mudarobah deposits are the equity of savers in the bank that has the possibility of profit and risk of loss. This system will work well if it is supported by good bank supervision.

Second Credit Ceiling. That is, the highest credit score limit that a commercial bank can provide to ensure that total credit creation is in line with the monetary target. By only relying on reserve requirements that make it easier for the central bank to make adjustments to High Powered Money, it does not guarantee the success of monetary management, because credit expansion can occur beyond the targeted amount. This happens because the flow of funds that can be accurately estimated into the banking system only comes from the exchange of the central bank with commercial banks, while the flow of funds from other sources that enter the banking system is difficult to determine accurately. Another thing that also affects is the unclear relationship between the reserve requirements that exist in commercial banks and credit expansion. In short, the behavior of money supply reflects the interaction of various complex internal and external factors, so it is better to set a credit ceiling.

Third, Demand Deposits. To influence reserves at commercial banks, the government is authorized to transfer the demand for government deposits at the central bank to and from commercial banks. This instrument has a function similar to the function of open market operations, where the central bank directly influences commercial banks.

Fourth, Common Pool. Namely, an instrument that requires commercial banks to set aside a portion of the deposit they control in a certain proportion based on a mutual agreement in order to overcome liquidity problems. This instrument has a similar function with the rediskounto facility at a conventional central bank to solve liquidity problems.

Fifth, Moral Suasion. Namely personal contacts, consultations and central bank meetings with commercial banks to monitor the strengths and problems facing commercial banks. With this instrument, the central bank can clearly and precisely provide advice to overcome the problems faced by banks so that it will facilitate the achievement of the planned banking goals.

Furthermore, methods that can guarantee credit allocation can run well in useful and productive sectors, including; First, Treating the Created Money as Fay'. The core money created by the central bank comes from exercising prerogatives. This brings benefits to the central bank because the costs incurred to create money are smaller than the nominal value or known as money seigniorage. Therefore, with this seignioraga, it is natural for the central bank to set aside some of its funds as fay or taxes which are mainly used to finance projects that can improve the socio-economic conditions of the poor and can reduce inequality in the distribution of income and wealth. These funds should not be used by the government to finance projects that only benefit the rich. With this instrument, the allocation of funds can be accounted for for distribution to useful and productive activities.

Second, Goal Oriented Allocation of Credit. The allocation of bank financing based on the purpose of utilization will provide optimum benefits for all business actors, will produce goods and services that can be distributed to all levels of society. In reality, this is difficult to happen because the funds that can be collected by general banks come mostly from small savers, but their use in the form of credit is more focused on big entrepreneurs. The reluctance of banks to extend credit to small businesses is due to the higher risk and greater expenditure in financing small businesses. The consequence of this is that it is very difficult for small businesses to obtain financing from banks, even if banks are willing to provide funds for financing small businesses, but it is accompanied by various difficult requirements for them, especially guarantee requirements. Under these conditions, it can be estimated that the growth and survival of small businesses will be threatened even though small businesses have the potential to expand job opportunities. Generate production and can improve income distribution.

To overcome this, it is necessary to have a guarantee scheme for banks in participating in financing productive businesses that do not violate Islamic values. Through this guarantee scheme, banks are not required to ask for guarantees from companies that apply for financing. In this case the bank faces challenges from the financing it does, namely the company being financed fails in business. If the failure is due to moral deviation, the bank will get the funds back, but if the failure is due to bad economic conditions, the bank must share the risk.

3. The concept of money market and capital market according to sharia perspective

The money market in Islam only allows money markets that do not use the interest system, in order to avoid usury nasi'ah because there is no profit (mashlahah) from the interest. Islam also strictly prohibits the buying and selling of money as a commodity or speculation. Because in the interbank money market based on sharia principles it is not permissible to use interest, it can be replaced by using other alternative contracts such as: (1) Mudharabah, namely a business cooperation contract between two parties where the first party (malik, shahib al-maal) provides the entire capital, while the second party (amil, mudharib, customer) acts as the manager, and the business profits are divided between them according to the agreement set forth in the contract. (1) Musyarakah, namely a cooperation agreement between two or more parties for a particular business, in which each party contributes funds (capital) provided that the profits and risks will be shared in accordance with the agreement. (3) al-Qardh, namely a financing contract to certain customers with the stipulation that the customer is obliged to return the funds received to the Islamic financial institution at the time agreed upon by the Islamic financial institution and the customer. (4) Wadiah (deposit of money, goods and securities), which is a contract from one person to another by entrusting an object to be properly guarded (as is customary). Fifth: al-Sharf (foreign exchange buying and selling)

In the money market and capital market, stocks are the main instrument for trading in both the Islamic capital market and the conventional capital market. Although in the Islamic capital market, issuers whose shares are traded must move in sectors that do not conflict with Islam, but this does not distinguish the substance and nature of shares in the conventional capital market. As for the assessment of the concept of the Islamic capital market itself, which relates to shares as the main instrument in the Islamic capital market, sharia does not allow stock trading. Likewise, issuing shares with the aim of increasing the company's capital, buying shares for investment purposes and trading them to take profit (capital gain) from the difference in price (margin) is a vanity activity in Islam.

Foreign exchange trading activities must be free from elements of usury, maisir, and gharar. In its implementation must pay attention to some limitations. The limitations that need to be considered in carrying out such transactions are: (1) The exchange must be done in cash (bai' naqd), meaning that each party must receive or deliver each currency at the same time. (2) The motive of exchange is to support commercial transactions, namely trade transactions of goods and services between nations, not in the context of speculation. (3) Conditional buying and selling must be avoided. For example, A agrees to buy goods from B today, on the condition that B must buy them back on a certain date in the future. This is not allowed because in addition to avoiding usury, it is also because conditional buying and selling makes the law of buying and selling unfinished. (4) Futures transactions must be carried out with parties who are believed to be capable of providing exchanged foreign currencies. (5) It is not allowed to sell goods that have not been controlled, or in other words, it is not permissible to buy and sell without ownership (bai' inah).

5. Conclusion

The current sharia financial policy in Indonesia is still regulated by Bank Indonesia as a central bank that adheres to conventional so that Islamic finance in Indonesia is still targeted by a conventional financial system. Monetary policy in conventional banking is relatively stronger than monetary policy in Islamic banking. Most of the effects of inflation are influenced by the Conventional Interbank Money Market (PUAB). The monetary policy transmission mechanism will work through various instruments, including: interest rates, monetary aggregates, credit, exchange rates, asset prices, and expectations). As the executor of monetary policy, BI has a goal to maintain and maintain the stability of the value of the rupiah. To achieve this goal, BI applies a monetary policy framework with inflation as the main target of monetary policy (inflation targeting framework) by adhering to a free floating exchange rate system.

Monetary policy can be classified into two, namely: Expansive monetary policy and contractionary monetary policy. Basically, there are several monetary policy instruments in Islamic economics, including: Reserve Ratio. Moral Suassion, Lending Ratio, Refinance Ratio, Profit Sharing Ratio, Islamic Sukuk, Government Investment Certificate, Mutual Funds. In Islamic finance the monetary sector has a dependence on the real sector. The functions of the central bank in the perspective of Islamic economics include: 1) producing and distributing money with the coordination of the government seeking internal and external stability. 2) as a supervisor for existing financial institutions and 3) managing the state financial system so that it is always stable.

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