MONETARY POLICY (STUDY OF CONVENTIONAL AND ISLAMIC PERSPECTIVES)

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Abstract: *As an important instrument in managing the modern economy, monetary policy is a key to success in stabilizing the country's economy. Where through the Central Bank, this policy regulates the supply and circulation of money in a country in such a way by designing financial variables such as the level of money supply and interest rates. The goal to be obtained is to maintain the stability of the value of money from various external and internal factors. Stability in the value of money is a reflection of stable prices which in turn can influence the achievement of a country's development goals such as meeting basic needs, equitable distribution, broad opportunities for employment, optimizing real economic growth and achieving economic stability. In principle, the goal of monetary policy in Islam is the same as conventional, namely the stability of currency values which leads to increased economic growth. However, the stability of currency values is intended to be carried out in ways that are in accordance with Allah's commands in the Qur'an. The frame of reference in monetary policy in the Islamic economy is the availability in terms of money stock, in addition to the objective it must be able to guarantee monetary developments that are not excessive but sufficient to make the most of the capacity of the economy in providing goods and services for the welfare of society as a whole.*

Keywords*: Monetary Policy*

Introduction

Monetary policy is a mechanism for regulating the supply of money in a country. In general, this authority is exercised by the Central Bank. In practice, monetary policy is a way for Central Banks to design policies that can influence financial aspects such as the level of money supply and interest rates to maintain the stability of the value of money from various external and internal factors. The stability of the value of money is a reflection of price stability which in turn can affect the achievement of a country's development goals. To fulfill this objective, the Central Bank as the monetary authority designs policies to regulate the creation of a balance between the supply of money and goods to control inflation, create maximum employment and smooth supply and distribution of goods and services. In general, monetary policy can be carried out through mechanisms and instruments such as interest rates, minimum reserve requirements, intervening in the foreign exchange market and making itself a place to borrow funds if other commercial banks experience financial difficulties with their liquidity. Actually, some of the instruments used in monetary policy do not really violate the rules in Islam except for interest rates and matters related to it, but unfortunately it is precisely this key factor in the form of interest rates that is very much against the emphasis and prohibition of usury practices. Islam strictly prohibits usury which includes interest in its various forms. This means that usury referred to here includes all its manifestations regardless of whether the loans made are commercial or personal, whoever the borrower is or the high and low interest rates applied. Everything is not justified and strictly prohibited.

Literature Review

A. Monetary Policy

Monetary comes from the Latin language, namely moneta which refers to all things related to money or procedures for how to provide money and circulate it in economic activities. In other words, monetary policy is a mechanism for controlling macroeconomic conditions so that they can proceed as expected by regulating the amount of money circulating in an economy in order to create price stability and controlled inflation. This arrangement can be done by increasing the money supply (expansionary monetary policy) or reducing the amount of money in circulation. Contractive monetary policy (often called tight money policy) in society.

B. Monetary Policy Instruments

Monetary policy can be pursued using instruments such as:

1. Open Market Operations
   Is a mechanism to control the money supply by selling or buying government securities. This is done by buying securities if you want to increase the money supply and conversely selling them to the public if you want to reduce the money supply.
2. Discount Facility (Discount Rate)
   Is by setting the interest rate of the Central Bank on Commercial Banks, by raising or lowering interest rates to reduce or increase the money supply.
3. Reserve Requirement Ratio
   Is the regulation of the money supply by increasing or decreasing the ratio of reserves required by commercial banks to the government through the central bank.
4. Moral Appeal (Moral Persuasion)
   Is regulation of the money supply by morally advising or socializing economic actors, including banks that provide credit, to be careful in extending credit to the public.

C. Conventional and Islamic Monetary Policy

The main focus point that differentiates Islamic monetary policy instruments from conventional monetary policy instruments lies in interest rates because riba is clearly and clearly forbidden and strictly prohibited by Allah SWT in the Koran. The silver lining is that there is justice in the relationship between capital owners and partnerships.

Several instruments of conventional monetary policy as previously explained apart from interest rates, by Islamic economists, are considered to still be used to regulate credit and money supply as long as they do not violate rules and principles in sharia transactions such as Mudharabah, Musyarakah, Ar-Rahn , Wadiah and Ijarah. A well-regulated monetary policy mechanism can certainly create stability at the economic level which has a direct effect on state income and employment.

If referring to Islamic economics, it is not justified for interest to make goods and services the real sector which is the top point of all economic activity. Where, all economic activities such as consumption, distribution, investment, international trade have been described in a more realistic way in the real sector. So that monetary in Islamic studies can be studied as all activities related to liquid assets, in this case money, carried out to support real activities from both supply and demand sides.

Instruments in Islamic monetary include instruments such as investment certificates, which are the best known and quite popular, such as sukuk. To change the interest rate in open market operations, a profit rate instrument can be used. In this case the government as the party with the most authority has an obligation to provide as many alternative types of choices as possible to economic actors as asset owners to engage in economic activities, such as various types of sukuk.

D. Conventional and Islamic Monetary Management

1. Conventional Monetary Management

The emergence of chaos in the relationship of various economic variables often makes it difficult to identify the path of monetary policy in achieving what is desired in the economy. In principle, there are 2 approaches to understanding how monetary policy instruments work, namely passive money and active money. The difference between the two lies in the use of operational targets used in the monetary mechanism.

a. Passive money

The passive money approach considers that the output gap is the dominant cause of the monetary transmission mechanism. From this approach, exchange rates and short-term interest rates become intermediaries that influence demand, inflation and the output gap. In this approach, the money supply is considered as a variable that cannot be fully regulated by the monetary authority. The goal to be achieved in this approach is to achieve the inflation target set by using short-term interest rates as a monetary instrument.

b. Active Money

The active money approach assumes that liquidity is the dominant cause of the monetary transmission mechanism. The main objective to be achieved is to control the inflation rate by using the money supply as an operational target.

2. Islamic Monetary Management

What forms the basis of monetary management in Islam is achieving stable demand for money and directing that money to priority and productive goals. So every instrument used must lead to the maximum effectiveness of the various existing resources. Speculative demand for money in Keynes's view is based on the influence of interest rates. Interest rate fluctuations reflect speculative movements in the demand for money. If the demand for money is high, the interest rate prevailing in the market will be low, and vice versa. In Islamic monetary management, interest rates were abolished and the emergence of the obligation to pay taxes on idle assets would result in the loss of incentives for people to hold only idle money. So that people are encouraged to lend their money to others (Qard), do muajjal and mudharabah trade.

Investors will invest their funds in activities deemed capable of providing the greatest actual profit value, so that when the demand for money for investment in the real sector is high or in other words the need for investment funds is greater, the expected profit rate will tend to decrease. This is because the actual rate of return does not move like interest rates, it will make the demand for money more stable. Interest rates as an opportunity cost in this case cannot be a guarantee for the use of available investment funds. In other words, there is no control mechanism for interest rates in allocating what the loan funds are used for.

Interest becomes a cost of capital that must be paid in the future, this allows creditors to obtain added value from these funds to cover interest costs. If there is no mechanism for setting interest rates and the vulnerability to fluctuations, it is possible that these funds will be allocated to activities that are not related to the real sector, because their decision making is not based on added value in the real sector, but added value to money earned outside the real sector. . Such behavior will reduce the source of loan funds invested in the real sector.

When there is a decrease in the actual return on investment in the real sector, then in the Islamic monetary management strategy this is responded to by holders of funds by reducing their investment and preferring to hold cash. If that happens, the government's policy is to increase the cost of unused assets or funds. In this policy, the owner of the fund is positioned as the bearer of the costs due to the idle money. As a result they will then invest their money and this causes a decrease in the demand for cash.

There are several basic strategies that can be used in Islamic monetary management, including;

1. Interest rates are abolished and taxes are imposed on productive assets that are unemployed and not used so that fund owners want to invest their wealth in the productive real sector.
2. Implementation of profit-sharing rules and mechanisms for syirkah transactions so as to provide ample opportunities for the public to participate in economic activities so that in turn will create opportunities for work and business as well as an even distribution of income.
3. Creation of business certainty in transactions related to savings and loans. Making the calculation of profit sharing risk the sole calculation of the cost of borrowed funds and the amount of profit sharing borne by the borrower is the amount of the profit sharing ratio multiplied by the profit realized.

Method

This work uses a descriptive approach which is a method used to analyze research findings but cannot be used to make an overall conclusion.

Result and Discussion

Islamic monetary policy focuses more on maintaining the circulation of economic resources, this is the core of the Islamic economy for all the various forms of policy and a set of rules and regulations that are permissible in sharia. To this day, Islamic economists are still discussing what instrument is the most appropriate as a tool to achieve the objectives of the Islamic economic system, especially in the monetary sector. So in addition to paying attention to the objectives of existing policies, it must also consider how compatible these instruments are with the principles and rules that exist in Islamic sharia law. That is why all monetary instruments in Islamic banks must be based on Islamic law. If you pay close attention, you will see that almost all of the securities that are the underlying assets and conventional monetary policy instruments contain an element of interest. So that it cannot be used in the implementation of Islamic monetary policy. However, there are also a number of instruments in conventional monetary policy that experts in Islamic economics can still use to control money and credit, such as reserve requirements, overall and selecting credit ceilings, moral adjustments and changes in monetary base. Open market operations can also be controlled from equity-based types of securities.

From several literatures in Islamic banking, there are several options offered in monetary policy instruments that can be used by central banks including:

1. Government Deposits, where this is the central bank's authority in transferring government-owned demand deposits from the central bank to commercial banks or vice versa in order to have a direct effect on commercial bank fund reserves.
2. Joint exchange rate arrangements between the central bank and commercial banks,
3. Common Pool, this method is adopted by advising commercial banks to set aside a deposit of a certain amount to alleviate a bank's liquidity problems

4. Equity-Base Instruments. Namely selling or buying securities, shares and profit sharing certificates on the basis of participation. It can replace government bonds in market operations.
5. Change in the Profit and Loss Sharing Ratio, in this case the Central Bank issues various alternative ratios for profit sharing from mudharabah for commercial banks, depositors and entrepreneurs.
6. Refinance Ratio, which regulates refinancing provided by the central bank to commercial banks as part of qordhul hasan.
7. Lending ratio. Namely setting the ratio in lending by the central bank as part of the qordhul hasan given to their customers.

Currently, several central banks in various countries are implementing single banking (only Islamic banks). , and Al-Ijarah. Meanwhile, according to Chapra, instruments and mechanisms in monetary policy that are in accordance with Islamic law must contain elements such as: Statutory Reserve Requirements, Credit Conditions, Government Deposits, Common Pool, M and Mo growth targets, Public Share Of Demand Deposits and credit allocation based on value.

Conclusion

Monetary policy is a set of rules and regulations issued by a country's monetary authority to control the amount of money circulating in society with the aim of achieving economic stability by increasing business activity and widening employment opportunities. Modifying the amount of money in circulation is a must in the application of all types of monetary policy instruments. Monetary authorities do this by selling or buying financial assets. One way is through open market operations. Basically, monetary policy is only used for short-term economic stability. So that in this way the exchange rate and interest rates are used as variables which will ultimately affect the amount of demand, inflation and the output gap. This is contrary to the rationale of Islamic economics which forbids interest because in the concept of Islamic economics, economic stability, especially in terms of monetary management, requires the realization of stability in the demand for money by directing it towards important and productive goals.

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