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Fiscal and Monetary Policy in Indonesia Perspective Islamic Economy

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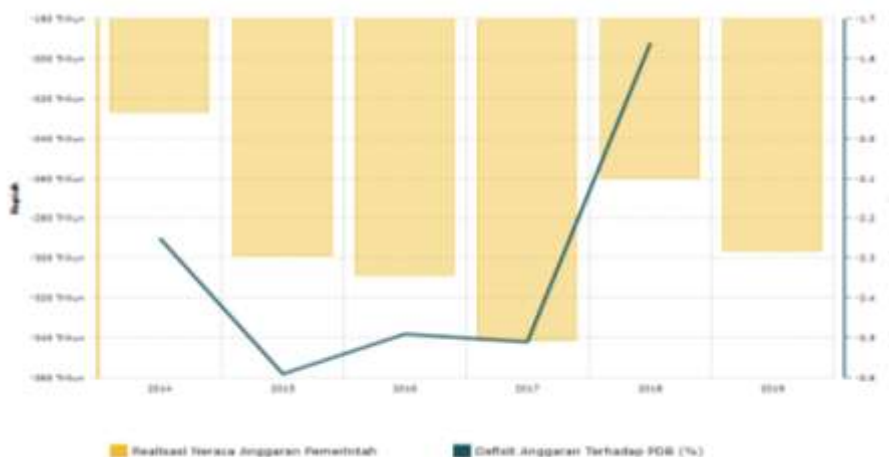
ABSTRACT: This research is a summary for highlighting thoughts on fiscal and monetary policy in Islamic economic literature. Research describes fiscal and monetary policies in Indonesia. monetary policy that applies the dual-banking system and impacts on macroeconomic policies. Whereas in fiscal policy with the State Budget instrument by relying on taxes as income but, on the other hand in the Islamic view can use Zakat as the main potential of state revenue. This research uses selection Literature review with expected conclusions. In Islamic perspective monetary and fiscal policy is very important for the welfare of a state with government protection monetary and fiscal policies with Islamic perspective as an alternative to the creation of national welfare.

KEYWORDS: Fiscal, monetary, Islamic and macroeconomics.

I. INTRODUCTION

Government as the highest institution in the administration of the State has a vital role in managing the State's household. The task of the government is to regulate monetary and fiscal policies to carry out the activities of a country. Fiscal policy is used for development goals that have three main functions, namely the function of budget allocation for development, the function of income distribution and substitution in order to improve people's welfare, and the function of macroeconomic stabilization, in order to improve the economy. In Indonesia fiscal policy uses the APBN instrument (Anggaran Pemerintah Belanja Negara) or Government Budget as a stimulus for economic growth. However, one important instrument for dealing with problems faced in Indonesian fiscal policy is still in the level of deficit (ministry of finance,2012).

Graph 1.1 Indonesia's 2014-2019 growth deficit



Source: <https://databoks.katadata.co.id/>



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In the past 5 years the APBN has experienced a deficit, despite the decreasing deficit that has occurred, Indonesia is currently faced with a deficit in the APBN due to development and the instability of the global economy. However the government still makes effort to make fiscal policy as economic development continue. Therefore, it needs a fiscal policy strategy in continuing fiscal consolidation steps in creating a regulator that contributes significantly in developing the country's economy.

In the historical record of Islamic civilization, the State plays a vital role. Regulating economic policy built on the principle of benefit and welfare of the people in the form of Baiutul mall (karim, 2004). In Indonesia the Presidential Regulation Number 18 of 2007, Indonesia's annual economic development target is directed at encouraging economic growth in order to expand employment, and reduce poverty hence fiscal policy in Indonesia which currently still relies on tax revenues as the country's main income (fathurrahman, 2012), there is a need for additional instruments that have the potential for state income, namely zakat. Zakat can be used for income and distribution instruments for equitable distribution of public funds. Optimizing zakat as a fiscal policy instrument is very important with the existence of the Mapping strategy so fiscal policy will be far more effective and will continue to reduce the value of deficits that Indonesia has.

Despite fiscal policy, the government also regulates monetary policy. in this case monetary policy which is under the auspices of Bank Indonesia. Whose fuction as the economic stability with a focus on the circulation of money. Bank Indonesia as the highest monetary authority in Indonesia which has a goal to achieve and maintain the stability of the rupiah value, in accordance with Article 7 of Act UU 3 of 2004 concerning Indonesian banks (Bayuni & Popoh, 2018). In the development of the history of human civilization, the role of money is felt to be very important. Almost no part of the economic life of the community that is not related to the existence of money, the amount of money out of control can have adverse consequences or effects from the uncontrolled development of the money supply, among others, can be seen in the underdevelopment of major economic variables, namely level of production and price (Warjiyo, Perry & Solikin, 2002).

In the instrument of monetary control in a conventional economic system, applies interest as a banking standard whereas, in the monetary economy of Islam there is the elimination of interest and the application of the Deposit Insurance Corporation. Implementation of the Islamic banking system in Indonesia in its development has mostly applied rules which are valid in Islamic law. But it cannot be denied that there are still many gaps for the Islamic banking system to be distorted by the conventional banking system. The problem is that there are no provisions and regulations that ensure the implementation and operation of Islamic banking runs consistently with sharia principles.

Monetary and fiscal policy in Islam is a reference that can be used to provide an overview of ideal economic success. Fiscal policy purpose to alleviate poverty, can use the zakat instrument as income and the distribution while, monetary policy can avoid interest or usury which is considered a bad risk in the stability of money circulation. Research describes monetary and fiscal policies in Indonesia with the perspective of Islam as an instrument to achieve public welfare.

II. LITERATURE REVIEW

Islamic Monetary Policy

Conventional monetary policy and Islamic monetary policy generally regulate the money supply for economic stability, but have different characteristics as the following:

Table 2.1 Characteristics of Differences Conventional Concepts vs. Islam

Conventional	Islamic
Use of fiat money	Full bodied/fullu backed money
Fractional reserve banking system	100 percent reserve banking system
Interest rate instrumen	Profit/loss sharing concept



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Monetary policy as one of macroeconomic policies in general is applied in line with the business cycle (economic activity cycle). In this case the monetary policy applied to economic conditions, is experiencing a rapid development (boom) and will be different in conditions where the economy is experiencing slow development (depression / slump) (Warjiyo, Perry & Solikin. 2002).

Kaleem (2000) conducted research on monetary stability in the dual banking system in Malaysia. Kaleem estimates the demand for conventional money and Islam but removes the variable interest rate in conventional money demand and does not add the variable Islamic return in the demand for Islamic money. The results show that the demand for conventional money is the same as the demand for Islamic money, which is not resistant to shocks. His research also shows that both conventional and Islamic M1 and M2 monetary aggregates are related to price levels.

Darrat (2000) conducted research in Iran and Pakistan using data from 1960-1998. This research is intended to see the stability of demand for money both in the interest system and in the non-interest system in the long run. This study is also intended to see the stability of money demand from the behavior of economic agents both in the interest system and the profit sharing system. The results show that interest free has a strong relationship with policy instruments and price stability.

Whereas Kia (2001) conducted a similar study in Iran with the period 1966-1998. The results show both short and long term, money demand for interest-free (M1) is stable and invariant for policy and other shocks in regime change, while money demand on interest-bearing (M2) is unstable. This study also shows that the behavior of economic agents towards interest-based assets is likely to be forward looking so that expectations are rational for the Iranian financial market. Or in other words that the coefficient of demand for money using interest is not affected by policy changes.

Astiyah et al. (2006) conducted a conceptual study which was subsequently formulated to obtain the most suitable approach to describe the behavior of the monetary system in the dual banking system. This study concludes that by not allowing the use of interest rates in Islamic economics, the implementation of monetary policy taken should tend to intact quantity targeting by prioritizing consistency between Islamic instruments and conventional instruments and paying attention to equality principles for both conventional and sharia banking types.

Ascarya (2007) conducted an analytical descriptive study of optimum monetary policy in the dual banking system. The results show that optimum monetary policy in a country adopting a banking or dual financial system should refer to the rate of return on the profit sharing system to maximize distributive justice and social welfare and minimize inefficiencies.

Izhar and Asutay (2007) conducted a study also on monetary stability in the dual banking system in Indonesia, from 2001 to 2004. The results showed that both the long-term equation and the error correction equation in the conventional M2 model and M2 Islam had no relationship significant with the price level. But the error correction term (ECT) value in conventional systems is greater than ECT in the Islamic system.

Islamic Fiscal Policy

The emergence of thinking about fiscal policy is motivated by an awareness of the influence of government revenues and expenditures, giving rise to the idea of deliberately changing government revenues and expenditures to improve economic stability. This technique of changing revenues and expenditures is known as fiscal policy. The objectives of fiscal policy in Islamic economics are different from conventional economics, but there are similarities, namely in terms of analyzing and making economic policies together. The purpose of all economic activity for all humans is to maximize the welfare of human life, and public policy is a tool to achieve that goal. In a conventional system, the concept of life welfare is to get maximum benefit for individuals in this world. But in Islam, the concept of prosperity is very broad, covering the life of the world and the hereafter and spiritual enhancement is more emphasized than the possession of material.

The income of the State source in the development of Islam collected in the State (baitul mall) can be grouped into 3 parts: first, sourced from Muslims (zakat, zakat fitrah, wakaf, nawaib, sedekah, dan amwal fadla. Second, acceptance originating from non-Muslim groups such as jizyah, kharaj, dan ushur and hird, receipts from other sources such as Ghanimah Fai ', copy money, gifts from other State leaders and government loans from both Muslims and non-Muslims. The following table of state revenues in the Islamic era (the period of the Prophet and the Khulafaur Rashidin)



Table 2.2 State revenue

No	Sources of Acceptance	Explanation
1	Zakat	Certain assets that must be issued by people who are muslim
2	Jizyah	Non-Muslim tax in a country under Islamic rule
3	Kharaj	Excise on land products imposed on non- muslims
4	Ushur	Special tax (import) of goods 10% of the value of commercial goods
5	Nawaib	Special tax is imposed on wealthy muslims
6	Pinjaman	Payable debt
7	Wakaf	Sedekah jariyah, donating property for the benefit of the people
8	Fai	Assets obtained by muslim governments from people who are not muslim and not as spoils of war
9	Khums	1/5 part stabilized from ghanimah (spoils of war)
10	Amwal fadla	Muslim objects that die without heirs

The study of zakat and tax as a distribution system, receives a large portion of the Islamic economic system. So important, that zakat is placed as the third pillar of Islam after prayer, precedes the obligation of fasting and hajj (Ismail nawawi.2009). In achieving the objectives of economic development, one of the instruments that can be used, namely maximizing zakat collection and optimizing the use of zakat. Maximizing the collection of zakat can be used for a variety of activities aimed at ensuring economic stability (M. Nur Rianto Al Arif. 2010). Fiscal policy in Islamic economics is a very important policy compared to monetary policy. Islam considers the importance of fiscal policy because this policy is very closely related to real economic activities, so that appropriate policies will greatly influence the progress of economic activities in the real sector.

Zakat is a financial, economic, social, political, moral and religious system at the same time. Zakat is a financial and economic system because it is a specified property tax. To see the position of zakat in fiscal policy is to use macroeconomics, which is a branch of science from economics related to certain policy issues, namely macro policy issues. Basically this includes problems related to the general management and control of the economy seen from the perspective of a national economic planner (Ali Nuruddin.2006).

III. RESEARCH METHODS

In this study using the selection literature review Selection approach. Selection literature review is a complications oriented approach, classification, and evaluation of what other researchers have written on a particular topic The purpose of the literature review is to:

- a. Placing each work in the context of contributions to the subject under review
- b. Describe the relationship of each job with other jobs considered
- c. Identify new ways to interpret and explain any gaps in research
- d. Resolve conflicts / problems among previously seen studies

Selection literature review was chosen because to describe the conditions of monetary policy and fiscal policy in Indonesia from various sources ranging from literature to books, journals and websites that can be justified.

IV. RESULTS & DISCUSSION

Fiscal policy development in Indonesia used the state budget funds as funds for government spending adjusted to the amount of income received. The goal is to support the economic development of a country. Sember revenue received by the government consists of three parts. The first primary income source, comes from stake levies, secondly from non-tax state revenues. And third is a systematic grant or assistance and loan :



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Table 4.1 Indonesian Government revenue posts

No	Government revenue
1	Government revenue Domestic tax (income tax, company, value added, sales, etc) Internasional tax
2	Non-tax revenue Revenue of natural resources Government portion of BUMN profit Other non-tax state revenues
3	Foreign aid and grants

Table 4.2 Indonesian Government Delivery Posts

No	State expenditures
1	State expenditures Central Government Expenditures Regional expenditures
2	Financing Domestic internasional additional debt financing

The table above shows that the APBN as a basis for fiscal policy relies on people's taxes and debt, especially from abroad if it is not sufficient. State Budgeting in the 2019 State Budget is 2,165.1 T if a 72% tax is the main income of the State. The state budget is in a secular system, revenue from various sources is merged into one without seeing where it comes from whether it is from public ownership or the state, and so is the rule. After all income is added to one so that it can be used for various state financing (lilik Rahmawati 2008).

Whereas in Islam the pattern of budgeting is the same as conventional, but excavation of sources of funds is based on sharia principles. Which in its history is have been able to sustain the development of the State, namely the greatest contribution is management and zakat. Previous studies have mentioned the potential of zakat can be a source of income collection by allocating productive factors in society. If zakat can be used as one of the instruments of fiscal policy, it clearly expresses its relation to:

1. As a means of redistribution of income and wealth. Because the concept of zakat is almost the same as transfer payment in a conventional economy, although there are many fundamental differences, either from a philosophical point of view, legal of problem and the distribution and utilization case
2. as an economic stabilizer. Good management of zakat can have an impact on economic stability. Economic conditions are sometimes in a booming situation and in situations of depression. This fluctuating condition certainly requires the existence of an instrument that becomes a stabilizer, so that the resulting infiltration can be minimized (Indonesia zakat and devlopment report)
3. as an instrument of development and empowerment of poor people (allocation function). Zakat has a very strategic role in community development. For developing countries including Indonesia, economic development related to the real sector gets the highest priority. This is so that the unemployment and poverty rate can be reduced, the field and employment opportunities can be expanded.

Monetary Policy in Indonesia uses a dual-banking system, meaning that the implementation of controlling monetary operations is carried out in conventional and sharia principles. Although the role of sharia monetary operations is still relatively small, it cannot control inflation because of its fluctuating nature. Sharia monetary control instruments can be applied in Islamic economics can be reached with two large instruments, namely quantitative control of lending and realize socio-economic goals (Muhammad. 2002). The credit distribution quantitative control is supported by



instruments such as statutory reserve requirements, credit ceiling, deposit deposits, common pool, moral conditions, equity base instruments, and change in the profit and loss sharing ratio. And to realize socio-economic goals can use a treating the created money as fay; and goal oriented allocation of credit.

Monetary policy influences the money supply, BI uses several controlling instruments directly or indirectly. Direct monetary control instruments: (a) a decrease in the value of money; (b) direct credit, while for indirect monetary control instruments such as: (a) Minimum Statutory Reserves; (b) Discount Facility; (c) Open Market Operations, namely: Bank Indonesia certificates, Sharia Bank Indonesia Certificates (SBIS), money market securities (SBPU), Reverse Repo-certificates of State Islamic banks (RR-SBSN), Certificates of Deposits, commercial paper, call money, notes and promissory notes, repurchase agreements, bill of exchange, banker's acceptance; (d) Bank Indonesia Deposit Facility (FASBI) and (e) Moral appeal (Bayuni, 2018). The development of Islamic banking in Indonesia is the basic foundation of the establishment of sharia principles in monetary operations in Indonesia, has carried out the following instruments:

- a. SBIS Bank Indonesia certificates are securities based on short-term sharia principles in rupiah currency issued by Bank Indonesia
- b. Reverse Report / sukuk Negara is state securities issued based on sharia principles, as proof of the share of SBSN assets in rupiah currency
- c. Sharia Bank Indonesia Deposit Facility is a facility provided by bank Indonesia to a sharia commercial bank, a syariah business unit for rupiah and foreign exchange money market brokers to place its funds in Bank Indonesia in the form of rupiah

With the existence of Islamic monetary instruments, it is necessary to have good and mutual coordination between institutions so that a dual banking system system can be created that is not oriented to just one monetary instrument

V. CONCLUSION & SUGGESTION

Fiscal policy and monetary policy play an important role in the creation of a country that is competitive and prosperous. Indonesia, which applies the tax-oriented fiscal instrument budget policy but is still experiencing deficits, so there needs to be additional instruments, namely zakat. In its history it has been proven that the receipt and distribution of zakat is capable of economic development. On the other hand monetary policy in Indonesia is also to stabilize the economy because there is an Islamic based monetary because it is oriented to the principle of profit sharing which is not the same as conventional which is still volatile. strengthening of the receipt and management of zakat must be able to run well with the synergy of the government and the relevant ministries or institutions to strengthen the position of fiscal policy. The application of monetary policy (dual banking system) becomes the basis of mutual synergy without having to be strengthened by one side only (conventional orientation) but must be carried out in a balance by applying the sharia system.

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1st INTERNATIONAL HALAL CONFERENCE & EXHIBITION 2019

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