

Price Control of Islamic Finance towards Stability of Economy: Case of Indonesia*

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Abstrak

Dalam sistem moneter konvensional, suku bunga yang ditetapkan oleh bank sentral memiliki peran penting sebagai instrumen pengendalian moneter untuk menjadikan ekonomi stabil. Sementara itu, dalam sistem moneter Islam, suku bunga tidak memiliki peran karena bunga dilarang, meskipun, semua negara Islam, seperti Indonesia, masih menggunakan suku bunga untuk mengendalikan peredaran uang di masyarakat sebagai upaya pengendalian inflasi. Padahal, para ahli ekonomi Islam, seperti al-Maqrizi, menyatakan bahwa peredaran uang di masyarakat harus dikendalikan untuk mengendalikan inflasi sehingga ekonomi menjadi stabil. Tulisan ini dimaksudkan untuk mengeksplorasi adanya kemungkinan pengendalian harga dalam keuangan syariah sebagai upaya stabilitas ekonomi, padahal sebagian besar ulama fikih sepakat bahwa pengendalian harga dilarang. Untuk menjawab permasalahan tersebut, maka beberapa studi yang dilakukan oleh para ahli ekonomi Islam dan fatwa DSN-MUI digunakan sebagai sumber data utama. Semua data yang terkumpul dianalisis menggunakan teknik analisis isi. Hasil studi menunjukkan bahwa pengendalian harga dalam pembiayaan syariah oleh bank sentral sangat penting untuk mengendalikan peredaran uang di masyarakat dalam mewujudkan stabilitas ekonomi. Jika penentuan harga kebutuhan pokok merupakan hal yang penting dilakukan, sebagaimana dinyatakan oleh Ibn Taimiyyah, maka penentuan *rate* pembiayaan menjadi lebih penting karena berkaitan dengan inflasi dan stabilitas ekonomi. Namun, sejauh ini, tindakan tersebut tentunya akan menimbulkan kontroversi karena akan membuat orang berpandangan bahwa bank syariah tidak berbeda dengan bank konvensional. Karena itu, perlu dipertimbangkan.

Kata Kunci: *time value of money – discounting value - pengendalian rate pembiayaan*

Abstract

In conventional monetary system, rate or interest rate which is fixed by central bank has an important role as instrument of monetary control to create a stable economy. Meanwhile, in Islamic one, it has not because it is prohibited, even though, all Islamic countries, like Indonesia, still use rate or interest rate to control money circulation among the society in order to control inflation towards a stable economy. Whereas, Islamic economists, such as al-Maqrizi, said that money circulation among the society should be controlled in order to control inflation so that the economy is stable. This paper was aimed to explore the possibility of price control in Islamic finance towards stability of economy, whereas most of Islamic jurists

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agree that price control is prohibited. To answer this question, some studies done by Islamic economists and fatwas of National Sharia Board – Indonesian Council of Ulema (DSN-MUI) were used as primary data sources. The data were analyzed with content analysis. The result shows that price control of Islamic finance by central bank is very important in order to control the money circulation among the society towards the stability of economy. If fixing of staple goods price is important, as it is said by Ibn Taimiyyah, fixing maximum rate of finance is more important because it is related to inflation and stability of economy. So far, however, it may be controversial if the central bank, such as Bank Indonesia, today, fix the Islamic finance rate, because it will lead people to view that Islamic banks is not different from conventional ones. Therefore, it must be considered.

Introduction

Monetary control which is carried out to create a stable economy, as a matter of fact, had been discussed by an earlier Islamic economist, al-Maqrizi. As an Islamic economist who focused on inflation problem which happened in his time, he said that one of the factors which caused hyper inflation in his country so that economy became unstable was that the circulation of money among the society was out of control. According to him, lots of money circulated among the society will raise the price of goods and services, and in the end, it makes economy collapse. Hence, the stability of monetary, according to him, is very important to be concerned so that the economy will be stable (Zainal, 2020). This frame of mind is the same spirit as the monetary control framework developed by Bank Indonesia (BI).

Bank Indonesia (BI), in its monetary policies, has main goal to achieve and preserve the stability of rupiah exchange rate either for goods and services reflected in inflation or for other country's currency. In this context, BI develops Inflation Targeting Framework (ITK) in which its monetary policies are aimed to achieve inflation target set in front and declared to the public as manifestation of central bank commitment and accountability. In the implementation, ITF uses interest rate policy as a monetary signal and interest rate of interbank money market as operational target. The end of this policy is that the stability of rupiah exchange rate can be protected and preserved which is reflected in low and stable inflation. To achieve this, BI sets interest rate in BI-7Day Reverse Repo Rate (BI 7DDR). By this interest rate policy, BI could control money circulation, in which the change of BI 7DDR influences the interest rate of banking deposit and the interest rate of banking credit. When BI 7DDR decreases, the interest rate credit will also decrease and then the demand of credit will increase and the company's cost of capital will decrease so that it encourages consumption and investment activity which, in turn, encourage economy (Bank Indonesia, 2020).

Even though, the two have the same spirit, but they are different. Al-Maqrizi as Islamic economist living in the past and in the Islamic livelihood is different from the BI which exists in this modern era and uses interest rate as monetary instrument in its policies. In addition, interest is prohibited in Islam, so that Islamic monetary system avoids using interest in its operation (Chapra, 1983).

The prohibition of interest leads Islamic banks in Indonesian dual banking system do not use interest to get profit, but they use Islamic contracts. Hence, it is

reasonable that monetary control run less effective in Islamic banks than conventional ones, as it is said by Ponziani and Mariyanti (2020), Zulkhibri and Raditya (2017). In addition, it does not only happen in Indonesia, but also in other countries, such as in Malaysia. Rashid, Hassan and Shah (2020), said that Islamic banks in Malaysia were less respond to the changes of the monetary policy instruments rather than conventional ones. Further, suggested that it was necessary to set an Islamic finance instrument in order to take up and inject money through opened market operation and other instruments in the same industry (Zulkhibri and Raditya, 2017; Rashid, Hassan and Shah, 2020).

This condition brings out an issue: whether price control in Islamic finance towards stability of economy is possible or not in Indonesian dual banking system. This issue maybe supports the spirit of monetary control introduced by al-Maqrizi, but it maybe confronts the prohibition of interest and the prohibition of price control. To answer this question, this paper will discuss the issue of time value of money in Islamic perspective to analyse the possibility of price control in fixed return based Islamic finance, such as *murabahah*, and then discounting value of money in Islamic perspective to analyse the possibility of price control in non-fixed return based Islamic finance, such as *mudharabah* and *musharakah*, and the end, Islamic finance rate fixed by central bank.

Time Value of Money in Islam

Time value of money is one of controversial issues in Islamic finance. Some of Islamic finance criticisms said that Islamic finance cannot avoid time value of money in its practices. They always highlight the implementation of *murabahah*, in which credit price is higher than cash price, and cannot be denied that Islamic banks use percentage to calculate their profit in *murabahah* and use interest rate as benchmark (Saeed, 1996: 93). This, of course, raises question whether time value of money is permissible in Islam.

Al-Masri (2009: 48) said that time value of money was permissible in Islam. In addition, using table of interest is permissible to add the price of goods in deferred payment as long as it is used in trade not in a loan. Interest is just a name so that table of interest can be replaced by other name such as table of growth, table of discount, etc. He based his opinion on the opinion of classical Islamic jurists, such as Imam al-Syafi'i, al-Nawawi, and al-Kassani who said that cash is more valueable than credit (al-Masri, 2009: 22). Khan (1991) tried to establish that time value of money was not prohibited in general. He based his opinion on the permissibility of *bai' al-salam* and *bai' mu'ajjal*. According to him, the reason behind the high price of goods in *bai' al-mu'ajjal* can be explained by two assumption. They are time preference and supply-demand condition. Ahmad and Hassan (2006) viewed that Shari'ah did not deny the concept of time value of money because it did not prohibit any added price in loan issued to cover the price of commodity in any sale contract to be paid in the future, but making money's time value as a part of any lending relationship that make it predetermined value is prohibited. Siddique and Rahim (2015) stressed on that the concept of time valuation is permissible only in business and trade of good not in exchange of values and loans or debts. Hence, time value of money is not permissible, while time value of commodity is permissible.

Based on the opinion of Islamic economists mentioned above, it can be said that time value of money in the context of goods trading or time value of commodity

is permissible. It will be prohibited if time value of money concept is used to value time in the context of loan. All Islamic economists agree with this concept so that they view that higher price of credit in *murabahah* is valid.

Discounting Value in Islam

Profit and loss sharing based finance which is introduced in Islamic finance – as it is implemented in *musharakah* and *mudharabah* finance – is due to the prohibition of interest. In profit and loss sharing based finance, a person cannot ensure the profit he will get or he will give to his partner. It is different with those in the conventional economic system which uses interest in its system. With using interest, a person, who invest money in conventional economic system, he can ensure the profit he will get in the future. To calculate the profit he will get in the future is called discounting value.

In the conventional economic system, discounting is a concept which regards two similar values in two different time as two different values. It is because that present consumption is always preferred to future consumption, so that the future values need to be discounted to make them comparable with present value. In this situation, interest rate is used as discount rate in the conventional economic system. Based on this assumption, money has time value, whereas Islam prohibits interest because money does not have time value.

Over time, however, the need to calculate profit of the project before running the project arises, so that some Islamic economists introduce project valuation techniques. Al-Masri (2009: 48) said that using table of interest is permissible to value a project. Table of interest is just a mathematic technique so that it is not prohibited to use it as a tool to value a project. Kahf (1994) said that the concept of time value of money is not permissible to value a project. It can only be used for mental operation and not more. Siddique and Rahim (2015) said that there was no objection in taking time value of money for sake capital budgeting. They said that using discounting to evaluate the project to compare with other projects and to make a decision which project will be taken is permissible. In addition, what is prohibited in Islam is taking discounting as a consideration, not as an evaluation tool.

The description mentioned above shows that to calculate the profit of a project as a prediction is permissible, even though we use time value of money as a tool of evaluation for a project as long as we use it only to compare with other project to make a decision which project we will take. For example. A person will think that Rp 1,000,000 is not the same as Rp 1,000,000 after a year, because he can utilize a year to earn some profit, for example Rp 100,000 on Rp 1,000,000 and can raise to total Rp 1,100,000, which better than Rp 1,000,000 after a year without any profit. Therefore he prefers Rp 1,000,000 today to Rp 1,000,000 in the future, and it is a rational choice. Islam does not object it. Islam will object only when he prefers Rp 1,000,000 in the future with guaranteed Rp 100,000 potential profit whether it is a loan or investment contract.

Islamic Finance Rate Fixed by Central Bank

To fix rate of finance based on time valuation by central bank will be controversial because it will lead people to view that Islamic banks is not different from conventional ones. Besides that, price control is generally prohibited

according to most Islamic jurists based on the hadith narrated by Abu Daud, in which Prophet Muhammad, peace be upon to him, refused to intervene the market by lowering the price of goods which rised at that time in Madinah. This hadith leads most Islamic jurists agree that price control is prohibited in Islam. It is because, according to Ibn Qudamah, price control has negative impact in which the goods will be scarce and affects on rising prices, and foreign traders are reluctant to enter the market, while local traders will hoard their goods, so that the price will rise (Fakhrina, 2017).

In Ibn Taimiyyah's view, Islamic jurists' opinion of price control can be categorized into two issues. Firstly, if the price of a good rises, then a trader tries to sell his good at a higher price. Secondly, fixing maximum price in normal situation (Fakhrina, 2017). Most Islamic jurists refuse fixing maximum price based on the hadith mentioned above and the Qur'an saying that sale contract is done on agreement. Nonetheless, Sa'id ibn Musayyab, Rabi'ah ibn Abu Rahmah, and Yahya ibn Sa'id allow it if it is aimed for the good of society (Fakhrina, 2017). Therefore, Ibn Taimiyyah said that price control by the government was allowed if it was aimed for the good of society. He explicitly said (Islahi, 1996: 97):

If pricing may be done in response to one person's need, it is more logical to do it for the common public's need for food, clothing and housing, as these public needs are of far greater importance than the need of one individual.

Based on that, it can be said that price control (read: fixing maximum price) is allowed if it is aimed for the good of society. The aim of monetary policy by setting interest rate carried out by BI is to preserve the stability of rupiah exchange rate so that the economy will be stable is the same spirit, but because of interest is prohibited in Islam, so it cannot be accepted. If the interest rate is prohibited in Islam, what about the margin rate and return rate? Are they also prohibited?

According to the opinion of Islamic economists, as mentioned above, that time value of money is permissible in Islam if it is used to valuate time in a sale contract, it makes sense that fixing margin rate (as maximum price) is acceptable. Al-Masri (2009: 49), however, said that central bank was allowed to fix the price of Islamic finance, either margin rate or return rate. To fix margin rate and return rate can also be based on the price gap between credit price and cash which is calculated per year or be based on table of interest, as table of interest is just a name, according to him. His opinion is based on his view that time value of money is permissible in Islam, as mentioned above.

To fix rate of finance is also implicitly acceptable in Indonesia based on the fatwas of DSN-MUI. In Fatwa No. 84/DSN-MUI/XII/2012, DSN-MUI approves the use of margin calculation based on either flat or annuity interest calculation as it is usully done by Islamic banks. Even though, DSN-MUI does not explicitly mention the permissibility of using flat or annuity interest calculation, the fatwa implys that the Islamic banks are allowed to use it. This decision is the same as al-Masri (2009: 48) that using table of interest is acceptable in Islam as long as the contract is not a loan. Besides that, in Fatwa No. 111/DSN-MUI/IX/2017, DSN-MUI explicitly cites legal maxim "time has portion of value" which is also mention by al-Masri (2009: 25) to approve the concept of time value of money. Thus, no

doubt that there is evidence that margin rate on *murabahah* is implicitly influenced by the interest rate used by conventional bank (Fakhrina, 2015).

In Fatwa No. 87/DSN-MUI/XII/2012, DSN-MUI approves Islamic banks to use income smoothing method in giving profit to their depositors to make them competitive with conventional banks. This decision is based on the opinion of Hanafi's scholars who say that one of the parties in *mudharabah* contract is allowed to put forward a condition that he will receive a specified amount of money if the profit is more than the amount which is asked by him (Al-Zuhaili, 1985: 3939). Based on this fatwa, Islamic banks may use rate of deposit interest as benchmark to calculate the profit which will be given to their depositors. Therefore, no doubt that there is strong evidence that the return rate on profit and loss sharing accounts is implicitly linked interest rate used by conventional banks (Chong and Liu, 2009; Zulkhibri, 2015). Chong and Liu (2009), in their study, stated that deposit in Islamic bank was not really free of interest, but it used conventional deposit as benchmark.

It can be said that, even though BI does not explicitly fix finance rate for Islamic banks, they use the interest rate fixed by BI as benchmark for their finance rate. It means that al-Masri's opinion that central bank is allowed to fix finance could be acceptable, because there is evidence that most of Islamic banks use interest rate as benchmark in their pricing of finance. To fix finance rate is the same important as to fix price of staple goods as it is introduced by Ibn Taimiyyah, or it may be more important, because rate plays an important role in monetary system to control money circulation among the society. What we have to note is that the rate fixed by central bank is maximum one, so that the Islamic banks could use rate in the range under the maximum one in fixing their finance rate.

This policy, however, confronts Chapra's (1983) opinion which suggests that the central bank should estimate the demand for money and try to regulate the supply of money accordingly in order to ensure that the expansion of monetary is neither inadequate nor excessive, and should not use rate of interest. Besides that, we also should consider the people's view of Islamic banks, in which it will lead them to view that Islamic banks is not different from conventional ones. Thus, education of Islamic finance and monetary system should be given broadly to them, so that they have broad knowledge about it. If the central bank does not fix the Islamic finance rate today, it is just to do smoothly in order not to bring about any controversies, since DSN-MUI does not approve it.

Conclusion

It can be said that price control of Islamic finance by central bank is very important in order to control the money circulation among the society towards the stability of economy. If fixing of staple goods price is important, as it is said by Ibn Taimiyyah, fixing maximum rate of finance is more important because it is related to inflation and stability of economy. So far, however, it may be controversial if the central bank, like BI, today, fix the Islamic finance rate, because it will lead people to view that Islamic banks is not different from conventional ones. Therefore, it must be considered.

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