

PROBLEM AND PERSPECTIVE OF ISLAMIC MONETARY POLICY IN INDONESIA

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Abstract

This article would try to explicate several theoretical and practical concepts on the problems and prospects of Islamic monetary policy in Indonesia using a critical analysis approach, in accordance with standard scientific references, and would be complemented with descriptions and examples of practice. From these illustrations and analyses, it appeared that on one hand, Islamic monetary policy would find many difficulties if implemented fully, considering that there were several fundamental obstacles that would have to be surmounted by such an implementation, primarily the fact that Indonesian Constitution (UUD 1945) was not based on Islamic law or syariah. On the other hand, despite problems and challenges, the existing condition was still open for the possibility for partial implementation of Islamic monetary policy. It was because there were several conditions which were amenable for an implementation, for instance the facts that majority of Indonesian population was Muslim, the increasing acceptance of the public for the advantages of Islamic monetary and financial system, and increasing support by stakeholders of the banking system, especially the Indonesian central bank (BI). Moreover, there were facts about financial institutions and existing syariah banking institutions.

Key words: *islamic monetary policy, the basic prohibitions, riba, ghahar, qimar*

Indonesia is the farthest country of the origin of Islam which has a very large proportion of Muslim, which is estimated at 90 percent of its 230 million population. Considering this fact from economic and especially monetary perspective, the government of Indonesia through its central bank, that is Bank Indonesia (BI), has deemed it important and strategic to implement monetary policy or management which accords with Islamic law (Syariah). This is evident, among others, from the issuance of Law No. 10 of the year 1998 and Law No. 23 of the year 1999, which was amended by Law of Indonesian Republic No. 3 of the year 2004 concerning Bank Indonesia and Law No. 21 of the year 2008 concerning syariah banking.

However, some people have considered that the issuance of these laws have not presented a convincing case for full implementation of Islamic monetary policies because these laws have only dealt with financial activities, especially the ones related to banking that applies the syariah principle of profit sharing, hence it is considered partial. Therefore, the debate on the feasibility of applying Islamic management or Islamic monetary policies IN Indonesia often flares up from time to time in many circles, but so far such debates have not resulted in a convincing case for such application.

The question that is always on the lips of those discussing and debating this topic so far is whether

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and how far the three laws above can serve as a strong foundation for applying Islamic monetary policies in Indonesia, both comprehensively or partially.

This article endeavors to answer those questions by discussing them in practical and scientific terms, based on the concepts and ideas of several experts, which will then be related to the real cases in Indonesian economy which show the underlying limitations that will have to be considered in the event of full application of Islamic monetary policies.

The analysis of this article will use the qualitative descriptive approach or method which is based on limited review of literature, assisted with schemes and statistical tables, especially for the discussion of framework, mechanism, limitation and prospect of an Islamic monetary policy in Indonesian economy.

THEORETICAL FRAMEWORK FOR THE MECHANISME OF ISLAMIC MONETARY POLICY

In the early days of Islam, the time when the Prophet lived, economic activity was dominated by trading, hence it was not based on natural resources such as oil or other resources which is common in the present day. However the economic of Arabic society in those times was far from backward. At that time, foreign exchange had already been used by Roman and Persian traders, where *dinar* and *dirham* served as common currency under a system of free foreign reserves. Non-cash transaction or credit was also common, both with or without credit instruments similar to the ones common nowadays, such as cheque or promissory notes and instrument factory or factoring. The instruments issued by the existing financial institutions at that time were all, of course, free of interest.

The primary characteristics of monetary policy in the days of the Prophet is that such policies were aimed at creating stability of currency and driving the growth of real sectors of the economy. The stable currency value was a result of the application of monetary stabilization policy which was comprised of several elements through certain transmission mecha-

nisms in accordance with the roles of monetary and financial system of the time.

One of the policies aimed at preventing oversupply of money was the insistence that intrinsic value of the currencies, that is *dirham* and *dinar*, should be the same with their nominal values. Demand of real money was forbidden, especially when it was meant for accumulation, and the same applied for goods. Therefore, demands of money and goods were only allowed for transaction and reserve.

Another practice which was not allowed during those times was gaining irrational amount profit by the sellers from the ignorance of consumers concerning the price of the traded goods (*talaqqi rukban*), because it was considered a distortion of price and market. Another kind of transaction which was forbidden is *kali-bi-kali*, that is a transaction where money and goods were traded after a contract was signed or agreed upon without any certainty about what goods were being traded, which is similar with the futures instrument in currency or capital market, which is based on speculative motives.

The economic policies in the days of the Prophet which were meant to drive economic growth were monetary policies which would directly impact on the condition of real sectors of the economy without the intermediation of interest or money minting through the policies of government budget deficit.

It is therefore evident that these monetary policies were aimed at increasing the speed of money circulation which would impact the development of infrastructure or investment in real sectors. In order to raise funding from the public as a source of financing the investments, a policy was made to create business cooperation in the form of *syirkah* or *mudharabah*, or it was recommended to provide well-intentioned loan (*qardh*) or collecting charity. Such a business arrangement was recommended because it would provide gain and utility for both the capital owner and manager, so that they both gain experience, information, insight on the aspects of business management and knowledge of business risk and could there-

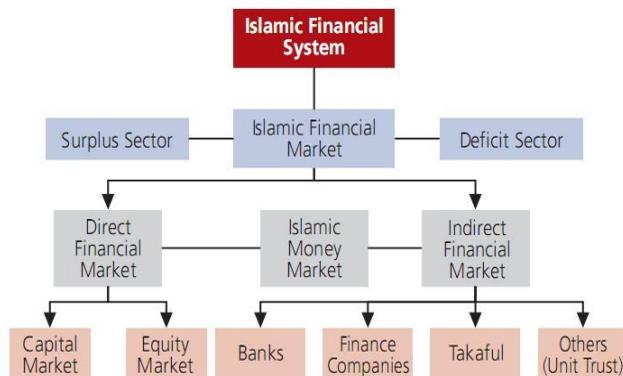
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fore share the profit and loss of the business fairly.

As time went by, the ideas on the mechanism for Islamic monetary policies also were further developed and perfected in accordance with the development of role and structure of modern syariah financial institution, as presented in Figure 1 concerning the system and structure of modern Islamic financial institution, which has been widely known and practiced in many parts of the world.

One of the modern conceptual ideas which can serve as a useful reference for understanding how far Islamic monetary policies can be applied in Indonesia Chapra (1996) "Monetary Management in an Islamic Economy".



Source: Saiful Azhar Rosiy (2005) in Indonesia Economic Report 2008 of Bank Indonesia

Figure 1. Structure of Modern Syariah Financial Institution

Chapra (1996) considers that the main objective of Islamic monetary policies is to achieve stability for currency value. The reason is that stability of currency value, as reflected by the stability of prices, will make an impact on the achievement of economic development in a nation, such as the fulfillment of basic needs, distribution of income and wealth, real economic growth, expansion of labor market and stability of trade with foreign countries. In explaining his ideas, Chapra (1985) offers an analysis based on three main themes, that is: explanation on the role of money for investment, on supply and demand of money and on the instruments for Islamic monetary policies.

Monetary management through the instrument of interest, for instance, was considered by Chapra (1996) as ruinous for the economy because it will stimulate the emergence of speculative practices and irrational patterns of consumption. For instance, an increase in the interest rate will accelerate the expansion for money demand for non-productive or speculative purposes.

The same also applies the other way around: when the interest rate is low, high-income segment of the society will expand their consumption to inordinate levels and this will also bring negative impact on price stability. Therefore, for cases when the interest rate is fixed, only those capable of borrowing will enjoy such loan facility and those from lower economic levels will be left out of the market for that credit. This will limit the expansion of real investment and widen the gaps between income levels.

Therefore, according to Chapra (1985), the patterns of supply and demand of money should be regulated in accordance with market mechanism but it should be carried out responsibly, through several Islamic monetary policies.

The mechanism for the policy of regulating the pattern of money demand is implemented through three instruments, that is: (1) creating the right condition for value judgment in relation to money, that is money is considered as a resource which is consigned by God to human beings in accordance with the teachings of Islam, which views that money should be used as efficient as possible for fulfilling basic needs and real investment; (2) establishing economic institutions which can achieve a market which functions in a responsible manner; and (3) establishment of financial institution based on profit and loss sharing.

If the three mechanisms are in place, Chapra believes that demand of money will stabilize the economy since money demand for basic consumption and productive investment will tend to be more stable, due to the unavailability of money for speculation and conspicuous consumption.

The policy for regulating money supply in Islamic approach does not depend on the model of dis-

count rate or open market operation, but by rigorous yet dynamic determination of monetary growth target or the supply of money in the economy.

The central bank plays a very important role here in controlling the primary element of the amount of money in circulation, that is the monetary base. There are three elements which need to be regulated by the central bank, that is government loan from central bank, credit from central bank to the banking sector and the surplus from balance of payment.

Because the first element, i.e. government loan for covering the budget deficit, is not allowed in Islamic economy, therefore only the two remaining elements are open for regulation. The central bank should control the flow of credit to the banking sector through the policy of profit-loss sharing, instead of the discount rate model. This policy will then influence the attitude of the banking sector in giving credits to productive sectors so that they can fulfill their debt obligations.

In relation to the surplus of balance of payment, for instance, central bank can divert the surplus from balance of payment to finance expenditures in real investment sectors, so as to prevent inflation in the domestic economy and stabilize the exchange value in international economy.

Based on this fact, it seems that the mechanism for Islamic monetary policy offered by Chapra (1996) is based on how the instruments of monetary policies can affect the credit in the economy through its impact on the changes of supply and demand of money or credit by the society and by the banking sector, which can be achieved by two primary instruments, i.e. (1) quantitative control on credit and (2) instruments which can realize the social objectives for the good of the society.

Qualitative control on credit is usually meant to achieve or realize monetary targets which have been set before, and this can be achieved through several instruments.

The examples of such instruments are: (1) the issuance of statutory reserve requirement for demand

deposit and *mudharabah* deposit, (2) credit ceiling, (3) facility for transferring government deposits to other deposit accounts, (4) common pool, that is banking reserve for providing loan to central bank in order to maintain its liquidity according to the profit-loss sharing principles, (5) equity base instruments, that is instruments in open market operation according to profit-loss sharing principle, (6) change in the profit-and-loss sharing ratio, which has been practiced in Pakistan, for instance the variation of profit and loss for *mudharabah* activity which is issued by central bank to commercial banks or to the depositors or entrepreneurs, and (7) moral suasion, that is moral exhortation from the central bank that commercial banks should give their credit to the sectors prioritized by the government for the improvement of the society as a whole.

While the monetary policy instruments for achieving social objectives are: (1) treating the created money as *fay*, that is money seigniorage or minting by the central bank, where part of the fund is set aside as tax or *fay*, which is used for improving the social-economic condition of the disadvantaged segments of the society to reduce the income disparity in the society; (2) goal-oriented allocation of credit, i.e. a credit policy which is directed to finance prioritized sectors which can improve productivity and increase opportunities for employment or business. This policy is recommended and supported by a scheme of credit guarantee from credible institutions.

SEVERAL PROBLEMS IN ISLAMIC MONETARY POLICY IN INDONESIA

The brief theoretical discussion above can serve as a reference for determining how far the Law concerning Banking No. 10 of the year 1998, Law No. 23 of the year 1999 as amended by Law of Indonesian Republic No. 3 of the year 2004 concerning Bank Indonesia, and Law No. 21 of the year 2008 concerning Syariah Banking, can serve as basis for determining Islamic monetary policy in Indonesia. This article is written to present the general concepts and discourse concerning the question of whether Islamic monetary policy can be applied in Indonesia.

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Some people believe that the existing laws are oriented towards the idea that Indonesian central bank, that is Bank Indonesia (BI), can implement Islamic monetary policy. This idea is supported by pointing out that BI has issued several monetary policies for general banking activities which are based on profit-loss sharing principle, for instance in such monetary policies as: (1) establishment of *Giro Wajib Minimum* (GWM), (2) clearing policy, and (3) transactions in interbank money market.

GWM is the reserve fund stipulation in syariah banking which is established by BI. It is a mandatory reserve for third party funds, in the form of *giro wadi'ah* and *tabungan mudharabah* (mudharabah savings account), *deposito investasi mudharabah* (mudharabah deposit account), and other obligations. This is meant as an application of prudence principle by syariah banks and also as an instrument for BI to limit syariah banks' opportunity in giving credit.

The instruments for regulating money market is *Sertifikat Wadiah Bank Indonesia* (SWBI), which was then replaced by *Sertifikat Bank Indonesia Syariah*. This is a bond issued by BI (*sertifikat BI*) which can be traded in the money market through open market operation in order to regulate the amount of money being circulated by the credit activities of the syariah banks. This instrument also functions as short-term deposit facility for syariah banks with excess liquidity. The same can be achieved using *investasi mudharabah antar bank syari'ah* (abbreviated as *sertifikat IMA*), which is issued by syariah bank to obtain profit for those with excess funds or to obtain short term fund for syariah banks which is in need of funds.

Other instruments which can be used by BI to regulate the behavior of syariah banks is clearing instrument, which is applicable for all syariah banks and their branches with manual, semi-automatic or electronic transactions.

Part of this regulation is the rule on the amount of sanction imposed on negative balance on giro account and on syariah banks with negative adequacy

ratio (*bersaldo negatif*). The status of clearing participant can be distinguished into two kinds, that is direct participant where during local clearing a bank can account for clearing bills (*warkat kliring*) using its own identity, or as indirect participant, where it participates through other direct participants which serves as its primary bank.

Despite the above facts, some observer insist that in Indonesia, the practice of Islamic monetary policy has not been applied in real sense of the term, even after considering the various instruments which have been implemented by BI so far. Data shows that the share of syariah banking in Indonesia is only about 2 percent. This shows that Islamic monetary policy plays a very small role in Indonesian economy. This is only understandable since the sectors which can be directly influenced by Islamic monetary policy through syariah banking is relatively small in number.

To this difficulty, we must add the problems which has served the cause for much criticism against controversial nature of syariah banking in Indonesia, where this certainly will hamper the implementation of Islamic monetary policy in Indonesia.

However, it should be noted that some parts of the society still harbors much hope for the implementation of Islamic monetary policy in Indonesia after observing its fast development as evident from several indicators of financial sector and syariah banking, such as the high level of growth for the number syariah banks, the amount of fund raised from the public, the amount of assets and the amount of credit given and the level of non-performing loan (NPL), which has been shown to be quite low.

The question is whether this high expectation can be achieved in a short term, under the condition where other financial institutions tends to be aggressive and even opportunistic in their marketing efforts, at precisely this moment when the public becomes increasingly aware of the nature of syariah banking. Therefore, it is difficult to make accurate prediction.

The second problem which may acquire increasing importance in the future and become quite a challenge for syariah banking sector in Indonesia, especially for BI as central bank, is that many people from upper-middle level of society begin to question the practice of syariah banks, because most of them feel that they are educated or sophisticated enough to know about Islamic law (syariah) in relation to economic and banking activities.

These highly educated segments of the society bring into question the practices of syariah banks which they consider to be deviating from the true syariah principles since those practices bear too much resemblance with conventional banking practice. In principle, the profit-loss sharing in *mudharabah*, *musyarakah* and *murabahah*, do not differ much from the system of conventional banks.

It is therefore natural for these observers to conclude that the syariah banking, as practiced in Indonesia, has not been adequately based on the Islamic economic principles. For them, the existing syariah banking in Indonesia is merely a diversified form of conventional banking system which is ultimately based on capitalistic, and not yet Islamic, principles.

Such a conclusion is based on several ideas, as explained below. It is said that in the existing syariah banking as regulated by central bank, BI is finding it difficult to distinguish between the syariah and conventional banking, especially in controlling the amount of circulating money, since the circulating money comes from credit system, which in general is largely based on interest (*ribawi*).

Such an opinion is certainly plausible when it is related with the syariah banking practices. For instance, the profit-loss sharing principle in the *mudharabah* (capital financing) has not been successful in creating distinctive pattern of activity for syariah bank since in fact the activities of syariah bank does not differ much from conventional banks. The reason is that syariah bank carries out double role as *mudharif* (fund raiser) and as *shahibul mal* (fund/ credit provider) at the same time.

The question is the basis which should be used for syariah bank to change the status of the fund entrusted by the public into lending, since lending practice will mean that the entrusted fund has become the property of the syariah bank which can be loaned to other parties in accordance with its own discretion, without having to consult the original fund owner. In practice, this is considered valid because of the contract (*akad*) between the fund owner or depositor and the syariah bank (*wadiah adh-dhamanah* or *yadh-amanah*).

This is precisely the core of the problem, since the depositor has no choice but let syariah bank lend the fund to other parties. In practice, depositors usually do not have clear idea on the status of their fund and to whom their fund will be diverted. Syariah bank usually gives more weight to the interest of borrower (third parties) because their activities will be very influential for the income for the bank, which will be later be shared. As a consequence, the depositor usually only receives a bonus (*at haya*).

The same problem also occurs for the case of *musyarakah* (capital venture/joint venture), and the problem is caused by the same practices, where the existence of such practices by syariah bank has made it questionable whether syariah banks are really different from conventional ones.

The product of *murabahah* (buying-selling) is not immune to this problem, either. In legal terms or *de jure*, such transaction is legal due to the existence of contract, but in practice, or *de facto*, it is indistinguishable from the conventional banking practices which finance sales with credit or installments with fixed rate interest. In practice, a syariah bank can finance the purchase of a vehicle by its clients in the amount, say, Rp. 100 million, which is paid in installments for 5 years, and the total amount paid will be Rp. 200 million. This means that syariah bank has carried out purchase transaction but at the same time it created a credit with installments that carries a conventional fixed interest rate of 20 percent annually.

In Indonesia, *murabahah* is the much touted product of most syariah banks in general. Hence, in

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practice most syariah banks in Indonesia has extended credit or debt with installments, which has no distinction from the practice of conventional bank.

THE PROSPECT FOR ISLAMIC MONETARY POLICY IN INDONESIA

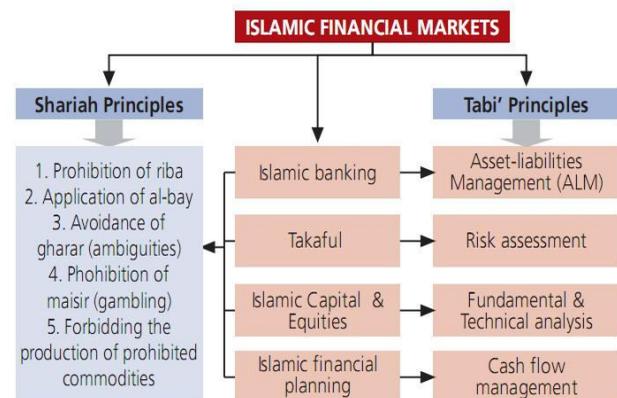
The problems and limitations described above are facts that are inevitable and have no clear and quick solution for the time being. However, that does not completely smother the chance for finding solutions which can be applied gradually to achieve full implementation of Islamic law or syariah principles in monetary policies in Indonesia. For that purpose, future efforts should be planned more carefully and systematically.

The first and most urgent need at present is that stakeholders, especially those directly involved with the implementation of Islamic monetary policy, that is central bank and the banking sectors in general, and the syariah banks (*bank usaha syariah*, BUS) or syariah division (*unit usaha syariah*, UUS) under conventional banks in particular, should disseminate knowledge and carry out practices which are appropriate, clear and evident to the wide public. This is important so that the public can see for themselves the advantages and benefits from the application of syariah principles in banking. If this is put in practice, it will alleviate several economic problems such as banking and financial crisis due to the actions of financial speculators, and at the same time will assist in realizing government plans for economic development which is conducive for the expansion of job opportunity (pro-job), assists in poverty eradication (pro-poor) and provide more equitable distribution of wealth to the disadvantaged segments of the society (pro-equity).

It is understood that Indonesian constitution is not based wholly on Islamic law or syariah. However, the existing laws as described above have actually provided enough space for implementing economic and financial practice in accordance with the syariah, albeit in a limited fashion as currently practiced by banking, financial and monetary institutions in ac-

cordance with the existing regulations. Therefore, if this condition is responded tactfully, it will gradually achieve something worthwhile, because the limited space has at least opened the opportunity for some of Islamic principles to be practiced and give their benefit for the wider public, especially in facilitating their financial and banking activities.

Meanwhile, the prospect for applying Islamic monetary policy is largely determined by consistent and responsible implementation of Law No. 21 of the year 2008 concerning Syariah Banking which is strengthening the Law No. 10 of the year 1998 concerning Banking and Law No. 3 of the year 2004 concerning Bank Indonesia. Basically, the new law concerning syariah banking is an effort to integrated syariah banking into financial sector in general, in relation to banking activity and in relation to both domestic and international activity. In practice, seen from the perspective of current situation, one of the advantage is that the law on syariah banking has been adapted to the ideas and system of financial market that is applicable in global context, as presented in the following Figure 2.



Source: Indonesia Economic Report 2008 of Bank Indonesia

Figure 2. Modern Islamic Financial Market

In relation with banking and domestic finance, the instruments of syariah banking has developed quite fast since the issuance of law concerning syariah banking. One of the symptoms is the issuance of *Sertifikat Bank Indonesia Syariah* as replacement of *Sertifikat Wadiah Bank Indonesia* in the effort to im-

prove the effectiveness of money market among syariah banks. This is also evident from the establishment of Jakarta Islamic Index (JII) in Jakarta Stock Exchange and the issuance of *Reksa Dana Syariah* (syariah mutual fund), syariah insurance and syariah re-insurance, the issuance of syariah government bonds (*surat berharga syariah negara*) and *Sukuk korporasi* (corporate syariah-based obligation). We must also mention here syariah education, as evident from the establishment of International Center for Development in Islamic Financing and the risk-based monitoring of syariah banks.

In relation with the international banking and finance, the government and Bank Indonesia have tried to improve financial support and syariah banking by inviting foreign capital. This has motivated the government to consider seriously various options for syariah financing by foreign investors, such as financing in foreign currency which can be directed through new syariah financial institutions (SPV). The government is expected to provide guarantee and bear the cost for underwriting. Another example is the financing which is raised through the issuance of *sukuk* in rupiah by foreign investors, where the fund will then be loaned to syariah banks and financial institutions through the government. This also includes the funds loaned to the government, where the government becomes the borrower and then extend the loan to syariah financial and banking institutions.

In order to achieve the objectives, BI as monetary and banking authority has stipulated six focus for the policy of syariah banking in a planned and deliberate manner so that the banking and financial system can function in accordance with the syariah. The six are: conformance to syariah principles, compliance with prudential aspect, development of efficiency and operational competitiveness, maintenance of system stability and benefit for national economy, improving the competence and professionalism of human resource, and optimization of the social function of syariah bank in facilitating social sector in improving the economic condition of the common people (*rakyat*).

The implementation of the new syariah banking law should find its challenge during the financial and banking crisis in the United States and Europe in 2008 as a result of the conventional banking and financial system that is based on interest. However, in Indonesia, it seems that syariah banking has not shown any significant impact. Several indicators of syariah banking and finance has indeed shown improvement but the range is still small and therefore the effectiveness of Islamic-based monetary policy cannot be determined yet, as shown in following Table 1.

This seems to be caused by the myriad problems and challenges due to the structural condition of the economy which is unfavorable to syariah banking, and lack of trust among the general public, and lack of consistency in the implementation of monetary and financial policies by monetary, financial and banking authorities, and government itself.

The challenge is evident in the “customer paradox” where most people are still dependent in the services of conventional banking because of the facilities offered by such banking, despite of the rising awareness and efforts from certain groups in the society to maintain and develop the existence of their groups based on their belief on Islamic law or syariah.

To this we must also add the lack of human resource which are competent in syariah banking and finance, which leads to the emergence of “hijacking”. It seems that the policy of “dual banking system” which has been in effect since 1992 until now has not enhanced in fair measure the development of syariah banking and financial system. This is evident from the slow growth of syariah banking’s market share in comparison with conventional banking and financial system, which is still within the range of 2%. The regulations from banking authority is also too rigid for syariah banking. For instance, the required capital for small and mid-sized banks to spin off its syariah division (*unit usaha syariah*, UUS) is still too restrictive.

However it is clear that there is still great opportunity for developing syariah banking and financial practices in the future, since solutions to the chal-

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allenges above can be found by the primary stakeholders.

In Indonesia, this opportunity is reflected in the result of several discussion and survey carried out by several parties who believe that public acceptance towards the existence of syariah financial and banking institution is increasing. This is made possible because the public begins to be increasingly aware of the concepts, practices, benefit, objectives and function of syariah banking and financial institutions.

One of the opinions shared widely among the public is that syariah economic institutions is a means to create equitable economic welfare with high level of job opportunity and economic growth, so that it can create social and economic justice and more equitable distribution of income and wealth and also to stabilize the currency exchange value as unit of measure, standard of payment with stable values. Syariah financial institutions is considered as a means to mo-

bilize fund for investment from the savings of the public which is based on profit-loss sharing that represents a more fair way of sharing. Syariah financial institution is also expected to be more effective in providing financial services especially for the common people.

In Indonesian society, the critical mass is very large, especially from the "swinger customer" (where the customers of syariah banking can be categorized into loyalist, swinger and conventional loyalist). Therefore, in order to attract this kind of customers, syariah institutions need to have a more appropriate approach and patterns of communication so that these categories of consumer can become "buying customer" which has great potential for the development of syariah banking and financial sector.

In such a condition, it is inevitable that primary stakeholders would have to be actively involved, especially BI, the banking sector, and non-bank finan-

Table 1. Development of the Role of Syariah Banking Institutions in Indonesia

Bank Types	2006	2007	2008	1 st Quarter - 2009*
General Syariah Bank	3	3	5	5
Syariah Division (UUS)	20	26	27	26
BPRS	105	114	131	132
Number of branches	636	711	953	999
- BUS and UUS	531	597	822	867
- BPRS	105	114	131	132
Office Channel	456	1,195	1,47	1,492
Asset (in trillion rupiah)	27.63	37.75	51.25	53.85
- BUS and UUS	26.72	36.54	49.56	52.15
- BPRS	0.53	0.71	1.69	1.7
Share relative to banking (incl. BPRS)	1.61%	4.87%	2.28%	2.28%**
DPK (in trillion rupiah)	21.2	28.72	37.83	39.65
- BUS and UUS	20.67	28.01	36.85	38.65
- BPRS	0.53	0.71	0.98	0.99
Financing (in trillion rupiah)	21.09	28.82	39.45	40.12
- BUS and UUS	20.45	27.94	38.19	38.84
- BPRS	0.64	0.88	1.26	1.28
Profit (in trillion rupiah)	0.38	0.57	0.43	0.17
ROA (annual)	1.64%	2.18%	1.01%	0.97%
Financing to Deposit Ratio (FDR)	99.48%	100.35%	103.64%	100.50%
NPF Gross	5.25%	6.33%	3.95%	4.61%
NPF Net	3.78%	4.14%	2.18%	2.67%

Source: Bank Indonesia, 2009

cial institutions which are based on syariah. The kind of involvement that is required here is, for instance, the giving of incentives and more intensive and focused and flexible policies from the banking authorities. This has been presented by Bank Indonesia in the blue print for the banking development. Support from Bapepam is also required in relation with the strategy for the development of syariah capital market as one of the complementary instrument of syariah banking, in accordance with the master plan for the Indonesia capital market 2005-2010. The role of non-bank syariah financial institutions should be empowered and developed, especially for socialization purposes, and if possible, these institutions should be involved as partners in syariah banking and financial products.

In the end, it is realized that the conceptual and pragmatic ideas above can really be applied consistently, though it is admitted that a monetary policy based on Islamic law or syariah cannot be implemented fully, however at least the spirit of the principles of Islamic monetary policy can be implemented. More importantly, this spirit of syariah is beginning to be internalized in the minds and hearts of many people. People are increasingly aware that the concepts of Islamic approach of economy, especially banking and finance, are very useful for maintaining the viability of many economic activities, including their own business or trade, in a just and non-exploitative manner.

CONCLUSION

The brief description on the theory and practice of Islamic banking and finance in Indonesia has shown that there are many difficulties in applying Islamic monetary policy in a consistent manner in accordance with its true meaning. These difficulties are among others caused by the fact that Indonesian central bank, that is BI, as the monetary authority, has to play what is essentially a double role and function. Bank Indonesia has to carry out its task as the central bank for conventional banking and also at the

same time as the central bank for syariah banking. This brings strong implications in the sense that it results in a lack of clarity in concept and even obfuscates the determination of final objectives, intermediate objectives and instruments for Islamic monetary policy which will be established by BI.

This problem is complicated by the fact that the practice of syariah banking itself cannot be fully based on the true Islamic principles, resulting in the lack of confidence or trust from many circles. This implies that the application of Islamic monetary policy in Indonesia will be facing many difficulties. The problem is further exacerbated by the fact that the constitution of Indonesian Republic is not based on syariah.

Despite these shortcomings, it must be realized that the manifold problems and challenges do not eliminate the possibility for applying Islamic principles for monetary policy in Indonesia. An Islamic monetary policy actually has great prospect for application, though it must be admitted that it can only do so in limited fashion. One of the supporting conditions for the application of Islamic monetary policy is the fact that majority of Indonesian people are Muslim, and lately it is evident that there is a growing acceptance of the society towards the concept of syariah economic concepts as an alternative which promises better economic practices.

However, this potential can only be realized when the stakeholders, such as banking sector and the society, and especially the central bank (BI) and the government have strong will, intention and real action in carrying out the activities and policies in accordance with the syariah principle, as described before. The advantage which can be gained is that at least it can give good result, that is the indirect implementation of the value of syariah by the society in helping to solve current economic problems, that is by improving the intermediary role of the banking and financial sector in national economy in accordance with the principles of syariah economy, that is justice, equality and disinclination to exploitation.

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