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An Alternative for the External Debt with the Implementation of Islamic Financial Instrument: Study on Indonesia Deficit Budget Policy

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Abstract

Indonesian government tends to use a budget deficit policy which has an impact on the amount of the state budget being no larger than the revenue earned by the state. This certainly triggers the government to incur debt, especially foreign debt. Indonesia as a country with a majority Muslim population certainly has great potential in utilizing Islamic financial instruments as a substitute for foreign debt. Therefore, this study aims to examine good state budget policies in avoiding state debt through the implementation of Islamic financial instruments such as zakat and waqf. The paper uses a descriptive qualitative approach. This study uses secondary data on state revenues, state expenditures, the state budget deficit, and Indonesia's sovereign debt in 2016-2020. The data were analyzed descriptively to determine the negative impact of Indonesia's current foreign debt. The result concludes that Islamic financial instruments such as zakat and waqf can be used as an alternative to foreign debt. In addition, the government can also issue SBSN, such as Sukuk, which encourage public confidence to invest in the government.

Keywords : Budget Deficit Policy; External Debt; Islamic Financial Instrument.
JEL Classification : E6, H5, H6

1. INTRODUCTION

One of the factors that can support economic growth is development. Economic development is an absolute process stage carried out by the state to improve the standard of living and welfare of all the community. For the government to carry out economic development, the availability of economic resources such as human resources, natural resources, and capital resources must be met (Subagiyo & Budiman, 2020). Without the support of these resources, the economic development pursued by the government will be hampered. While the fulfillment of resources for the community is an absolute thing and must be fulfilled.

The government has several choices of ways to be able to meet the required resources, especially capital sources. The capital used by the government comes from state revenue which consists of tax revenues, oil and gas revenues, and other domestic revenue (Jaelani, 2018). However, the state revenue is not enough to finance the development to achieve the desired economic growth target. So it is not taboo if the state chooses to have a public or external debt to fulfill its needs. The state decides to borrow according to the state's circumstances and goals to be achieved. For example, Indonesia, which is a developing country with a demographic bonus, has prepared infrastructure development projects to stimulate economic growth and alleviate poverty. In addition, there is also a need for state spending that cannot be postponed because it can negatively impact enormous losses and costs in the future (DJPPR, 2017).

In the future, if debt increases, it is feared that it can cause problems such as triggering capital outflows to an economic crisis. Such as the 1998 financial crisis caused by private foreign debt, the government debt can be a trigger for another superior crisis. "Dependence on foreign debt can one day become a vulnerability" (IMF Financial Counselor, Tobias Adrian). Although debt is commonly used to encourage economic growth, the dependence on debt is risky and could turn its aim into a threat, especially for countries with small economies (Jefriando, 2017). The government used debts as capital for economic development, especially the fulfillment of the state infrastructure. Kose *et al* (2022) explain that high debt levels increase the incidence of debt pressure, especially for developing countries that use debt as an emerging market and developing economies (EMDEs). Debt that is too high will be inherently risky, especially when financial market conditions become less friendly (Brautigam, 2020).

This has been felt by several countries that have failed to pay their state debt (default) and has an impact on the soaring rate of inflation which causes poverty to increase. An example is the countries of Zimbabwe and Sri Lanka which ended up having to hand over part of the infrastructure up to part of the area to China. From 1998 to 2015, Zimbabwe had fallen into suspended public debt service, with its public debt service obligations exceeding the country's foreign exchange earnings. Despite various public debt repayment reforms to increase domestic income, Zimbabwe, like many other developing countries, still faces many debt repayment problems. These include high government debt, low industrial and export competitiveness, a narrow income base, and weak investor confidence (Mugumisi, 2021; Saungweme & Odhiambo, 2018).

Meanwhile, in Sri Lanka, the accumulation of public debt has increased significantly since its independence. Those exceeded 100% of the gross domestic product (GDP) in the late 1980s and early 2000s. Although it has declined in the past and became 79.3% of GDP in 2016, the high level of debt in the weak financial position of Sri Lanka's small economy is a matter of concern (Maitra, 2019). The foreign debt to China carried out by the Sri Lankan government is aimed at building more advanced infrastructure, such as airports and ports. However, the size of the loan and the high-interest charged exceed Sri Lanka's GDP, which causes the government to be unable to repay the debt. The negative impact is Sri Lanka has to lose its airports and ports and press contracts against Chinese companies for 99 years (Madhuhansi & Shantha, 2021; Zilwa & Illanperuma, 2021).

The 2015-2019 infrastructure development plan required around Rp 500 trillion budgets. Meanwhile, the Indonesian State Budget cannot fully cover the financing and needs to increase the foreign debt to execute the development plan. Based on the International Debt Statistics 2022 report published by the World Bank, Indonesia recorded the amount of debt as approximately around USD 413.4 billion, or around Rp. 6,074 trillion. The debt expects to increase in next year if the government does not immediately find other alternatives to using a budget deficit policy. The budget deficit policy is used with foreign debt carried out by the government, and has a consequence on poverty rates and higher socio-economic inequalities. The debt used as capital to develop the infrastructure is considered a heavy burden for the next generation. Therefore, the existence of other financial instruments is necessary that can replace debt as capital for the economic development of a country. Currently, Indonesian Islamic economic advancement is enhanced, by utilizing various Islamic financial instruments in building the community's economy.

A previous study conducted by Alam, Sadekin and Saha (2020) on the subject of policy research in Bangladesh has proved that inflation and the money supply had a long-term effect on budget deficit policy. Due to the negative influence, it encourages the government to have a significant role in controlling inflation and the money supply in society. A similar study also conducted by Mawejje and Odhiambo (2022) points out an issue about a long-term causal relationship between deficit fiscal policy and macroeconomic indicators such as real GDP growth, interest rates, inflation, grants, debt service requirements, and current account balances. The results proved that the budget deficit policy is an inapplicable policy for the government in determining the budget state. If the budget deficit policy is implemented, it could cause an increase in the interest rates and inflation which has an impact on increasing poverty. Henceforth, the aftermath of implementing a budget deficit policy could burden future generations with enormous amounts of public debt. At the same time, all countries should increase tax collection and reduce tax evasion (Todorova, 2019). However, there is no further explanation about alternative policies which suitable for the government to avoid the budget deficit policies. Either government or previous researchers still consider foreign debt as the best solution in obtaining capital assistance for domestic development.

Thus, it can be concluded that based on the previous research above, no previous study has been found that discusses the role of Islamic financial instruments as an alternative to Indonesia's budget deficit policy. This research provides a new perspective in the form of suggestions and views, to the Indonesian government in particular, in avoiding foreign debt to cover a predetermined budget deficit. In addition, this research is also expected to provide insight into the use of zakat and waqf funds for practitioners of Islamic financial institutions and the Indonesian government as an alternative form of funds other than foreign debt.

2. METHOD, DATA, AND ANALYSIS

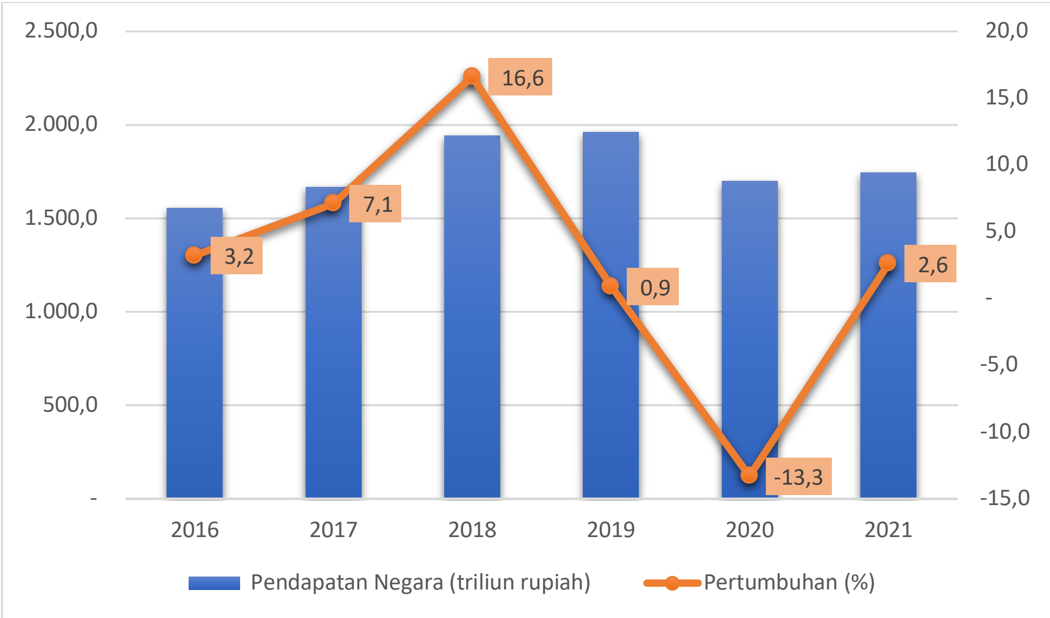
This study used a qualitative explanatory approach. Explanatory research is a study that explains the phenomena that occur by using primary or secondary data to interpret the data used (Subagiyo, 2017). This study uses secondary data with library research methods to obtain the required data. The data are taken from various books, journals, working papers, annual reports, web pages, and other documents relevant to the topic of this study, such as state debt from the perspective of Islamic economics and other relevant issues.

The data obtained were then analyzed using interpretive analysis through three stages. The first stage is data deconstruction, data presentation, and conclusions (Miles, Huberman, & Saldana, 2014). The first stage is the data deconstruction, carried out to sort secondary data into several parts for analysis (Sargeant, 2012). The theory of government budget deficit policy and state debt from an Islamic perspective is deconstructed to discover the materials which adequate in this study. The second stage is presenting the economic information, especially information on the State Budget (APBN) and the budget policies adopted by the Indonesian government, which are presented in the form of charts and tables. The last stage is a conclusion that aims to rebuild the elements that have been correlated based on previous theories and research (Sargeant, 2012). In this research, the reconstruction phase will explain the budget policies that can be taken by the Indonesian government, especially in avoiding state debt based on the alternatives and solutions offered by the author.

3. RESULTS AND DISCUSSIONS

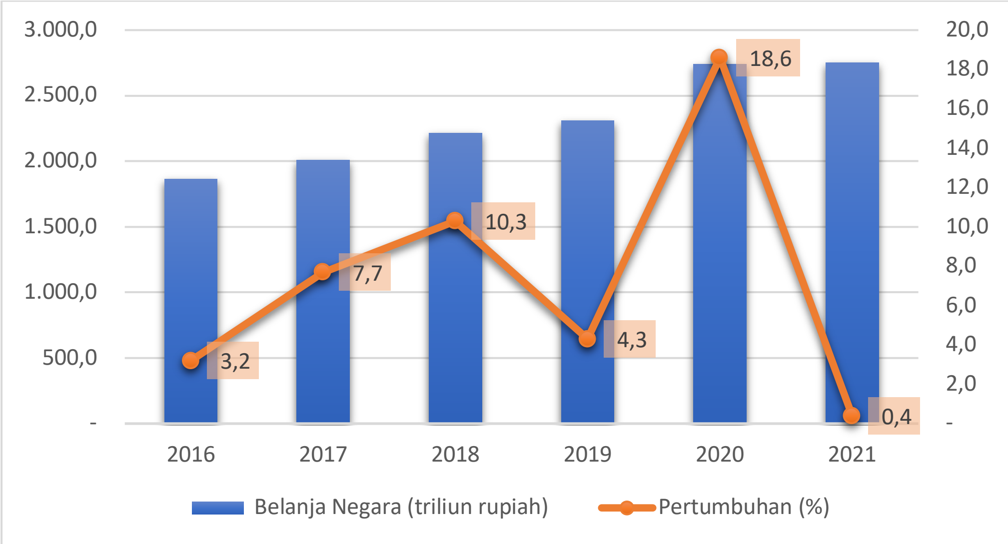
Budget Deficit Policy and Government Debt in Indonesia

Indonesia implements a budget deficit policy system because the budget set by the government exceeds the revenue obtained. Based on the comparison of graphs 1 and 2, shows Indonesia's state income is quite volatile, while state spending tends to experience an increasing trend. However, based on data published by the Ministry of Finance in the 2021 State Revenue and Expenditure Budget report, the government commonly used a budget deficit policy to cover the lack of funds for state spending (Kemenkeu, 2021).



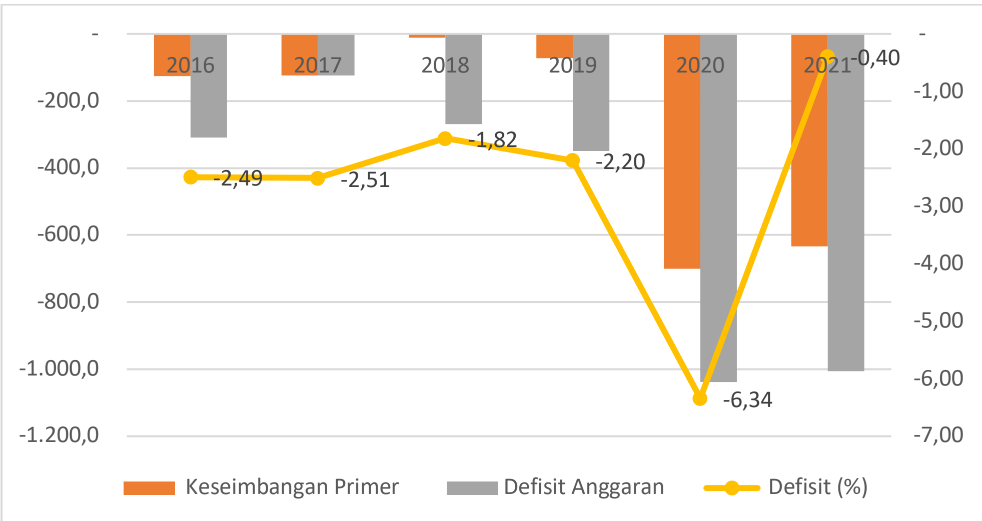
Graph 1. Indonesian State Income Level in 2016-2021
(Source: Kemenkeu, 2021)

Even the difference between revenue and government spending is quite far. In 2019, Indonesia's state income was only Rp. 1,960.6 trillion. However, Indonesia's state spending in 2019 reached Rp 2,309.3 trillion, which caused a budget deficit of Rp 348.7 trillion. The budget deficit increased to 2.2% from the previous year (see graph 3). The amount of the difference in the budget state will be obtained from the source of debt.



Graph 2. Indonesia's State Expenditure Level in 2016-2021
(Source: Kemenkeu, 2021)

In 2020, the ongoing Covid-19 pandemic caused the Indonesian government to experience a decrease in state revenues, especially those from taxes. The Covid-19 pandemic caused the number of layoffs, unemployment, and poverty to increase dramatically. Based on the data in graph 1, state revenues only reached Rp. 1699.9 trillion, where this figure decreased by 13.3% from government revenues in 2019. Meanwhile, state expenditures in 2020 experienced a significant increase of 18.6% to Rp. 2,739. ,2 trillion due to the Covid-19 pandemic.



Graph 3. Indonesia's 2016-2021 State Budget Deficit
(Source: Kemenkeu, 2021)

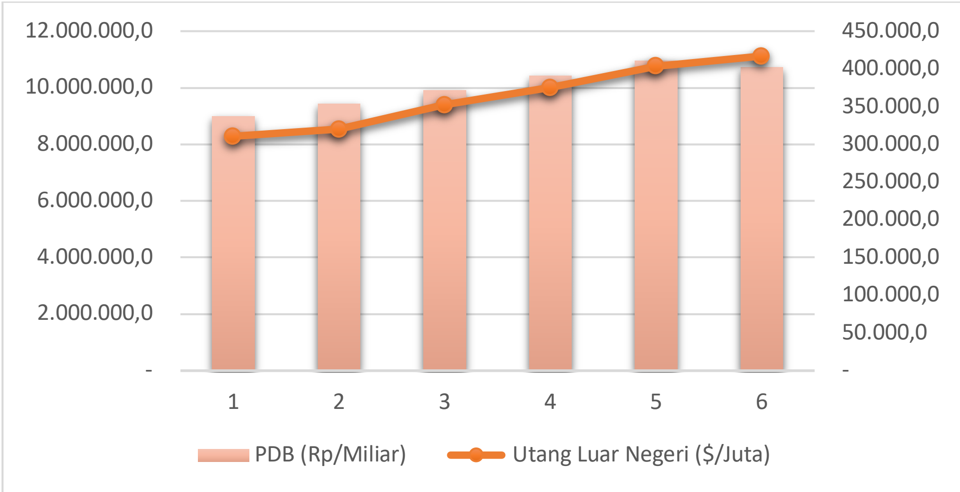
The Indonesian government's budget deficit increased again to -6.34% or Rp 1,039.2 trillion. Although these funds are used for the benefit of the community, especially in overcoming the Covid-19 pandemic and much of it is budgeted for the health and social sectors. However, the government must again cover the budget deficit of Rp 1,039.2 trillion with debt.

Based on the explanation above, shows that the Indonesian government commonly used a budget deficit policy. Where the shortage of spending funds needed was obtained from debt, both foreign and domestic. The budget deficit policy carried out by the Indonesian government also explains several other policy objectives, including (Kemenkeu, 2021):

1. Development of creative and innovative financing to support countercyclical in the context of economic stabilization (among others strengthening Government and Business Entity), Sovereign Wealth Fund/SWF, Over Budget Balance, and Public Service Agency.
2. Encouraging Market Deepening and Cost of Borrowing Efficiency, in the context of expanding the investor base/retail SBN payment channels and encouraging the issuance of regional bonds/Sukuk.
3. Encourage Quasi-Fiscal Effectiveness to stimulate the strengthening of the quality of human resource competitiveness and increase exports.
4. Support the restructuring of SOEs and BLUs as Special Mission Vehicles to support economic recovery and accelerate target achievement.
5. Used more Budget Balance to anticipate uncertainty.
6. Increasing access to financing for Cooperatives, Micro, Small, and Medium Enterprises/KUMKM, Ultra Micro/UMi, and housing for low-income people.

Based on graph 4, shows that data on foreign debt owed by the Indonesian government shows an increasing trend from 2016 to 2020. During this period, the highest debt growth occurred in 2017 reaching 10%, while the highest economic growth was in 2017. 2018. In 2017, several government projects were completed with an investment value of Rp 61.4 trillion, such as two toll roads, an access road, an airport, one gas facility, 3 PLBN, one dam, and one irrigation canal. In addition, there were 32 projects with an investment value of IDR 207.4 trillion in 2018 (KPPIP, 2019). The increase in Indonesia's foreign debt is parallel with the government's financing needs for infrastructure development and other government productive activities. The infrastructure development plan for 2015-2019 requires a budget of at least Rp 500 trillion. However, the Indonesian State Budget cannot fully cover the financing, so Indonesia must increase its foreign debt to conduct the development plan.

In 2020, the world encountered a global problem, namely the Covid-19 pandemic. Those caused an impact on global economic conditions for the worse as a result of the hampered world economic activity, as well as Indonesia. Economic growth in 2020 experienced a drastic decline of up to -2%. Although the value of debt growth in 2020 can be negligible, its ratio to GDP is the largest, which is 39.4%. This value is considered very large, especially with the minus value of GDP growth. Debt will further burden the state budget in the following years.



Graph 4. Growth of External Debt to Indonesia's GDP in 2016-2020
(Source: Bank Indonesia, 2021)

The Directorate General of Financing and Risk Management (DJPPR), which is under the Ministry of Finance of the Republic of Indonesia, explained that the state debt in 2020 aimed to:

1. Fulfill the financing needs of the APBN through debt in 2020 and refinancing maturing debts with optimal costs and controlled risks.
2. Support the handling of the Covid-19 pandemic, and maintain the stability of the national economy and/or financial system while taking into account the costs and risks as well as the needs of developing the SBN market.
3. Encourage the establishment of a deep, active, and liquid domestic SBN market to improve debt management efficiency in the long term.
4. Increasing public accountability as part of transparent government debt management in the context of realizing good governance.

Based on the information above, shows the government is still using state debt to finance maturing debts. The use of state debt to cover state debt illustrates that the Indonesian state budget is not strong enough to repay state debt obligations. This is caused by poor management of state debt. Enny Sri Hartiati, Economist of INDEF, stated that debt affirms to be safe if the repayment does not interfere with liquidity. Currently, the need for high debt is no longer because debt is financial bridging which is used to fulfill a liquidity mismatch, but as a tool for government fiscal policy to stimulate the economy (Huda, 2016; Jaelani, 2018).

Budget Deficit Policy and State Debt in Islamic Economy

Based on the explanation of Indonesia's budget deficit and state debt policies, it is necessary to know the views of Islamic economics on these two policies. Basically in Islam, Muslims must try to avoid debt, especially if the transaction still contains usury (interest) (Khasanah, 2019). So what is the law of the country in debt?

Islamic economists divide two opinions about foreign debt, including (Muhajirin, 2016):

1. Forbidding Islamic countries to carry out deficit financing (expenditures greater than income) which means prohibiting the existence of the debt, was done by the early Islamic government phase, and

2. Allowing Islamic countries to implement a budget deficit to increase the lack of capital by way of debt, carried out in modern countries.

Contemporary, many Muslim scholars argue about the budget deficit policy that causes the emergence of state debt, especially foreign debt. Mannan (1997) in his book entitled Islamic Economics: Theory and Practice, stated that modern Islamic countries must accept the concept of the newest budget system (deficit budget policy), which aims to cover budget shortfalls by overhauling the fiscal policy system (from intensification and extensification and tax amnesty), how to owe to international financial institutions and domestic banks. Traditionally there are three sources of loans, namely: the central bank, commercial banks, and bonds from the public. On condition, debt without any pressure from creditors, without charging interest (*riba*).

Supported the opinion of Chapra (1996) in his book entitled Monetary Management in an Islamic Economy, argues that to cover the budget deficit with tax revenues, by reforming the tax system and state expenditure programs, not through monetary policy and borrowing from outside parties. However, Chapra emphasized that the policies taken by the government were mostly done by increasing taxes and eliminating loans. This is because loans can increase the burden on the state budget, especially with the interest or usury charged.

Meanwhile, Zallum (2004) argues that based on the history of state finances during the time of the Prophet and the Caliph quoted in Junaidi (2016) states that by supporting the deficit budget and providing solutions similar to Chapra, namely by controlling SOEs and taxes. The state budget (APBN) is now considered too heavy and large, due to the incompatibility of responsibilities and expenditure items that must be subsidized by the state. Traditional sources of state income, such as *ghanimah, fa'i, jizyah, 'usyr, and khumus*, are sometimes unable to cover expenditure items. Thus, the state is responsible for seeking to close the state treasury from the baitul maal, whether conditions exist or not. This obligation passes to the Muslims when the Baitul Maal is empty. Foreign debt and international financial institutions are prohibited by sharia law because they are always bound to usury and certain conditions. The law of usury according to *syara'* is *haram* (prohibited), while certain conditions that accompany debt are considered to hand over power to the donor countries over the Muslims.

Alternative Budget other than Debt for the State

Thus, from the description above, it can be concluded a solution/alternative to cover the budget deficit in the state budget is, first, borrowing from foreign countries or international financial institutions (foreign debt) and secondly, control by the state over some public property such as oil, natural gas, and mining goods, and thirdly stipulating taxes (*dharibah*) on the people or their people. However, the first suggestion, according to Zallum (2004), is clearly not allowed. The state or government can choose the second alternative, which is to control some public property, such as oil, gas, and mining goods. If the second alternative is not appropriate, then the state/leader levies taxes (*dharibah*) on the people. So the modern government uses economic growth as a reference in preparing the state budget, by adhering to the principle of a deficit budget policy. There are three ways to fulfill the shortage of receipts, namely doing debt Islamically, controlling part of public property, and applying *dharibah* (Subagiyo & Budiman, 2020).

Various Islamic financial instruments such as Zakat, Waqf, and Sukuk are currently developed to encourage a better economy (Aprilianto & Widiastuti, 2021; Imron Mawardi et al., 2019; Widiastuti, Mawardi, Robani, & Rusydiana, 2018). The usage of Islamic financial instruments such as zakat and waqf can also be an alternative for the government in reducing and suppressing the tendency to do foreign debt. The government's enormous potential should be utilized to build a better country's economy. The potential of zakat funds in Indonesia is like a sleeping giant for at least two reasons (Gazali, 2019). First, an enormous Muslim population in Indonesia according to the calculation of the Central Statistics Agency (BPS) approximately 85% of the total population in 2021, which means more than 195 million people. Secondly, a huge number of people in the middle-class community have been transformed through vertical integration due to the improvement in the country's economy. It caused their number also be dragged into an increasing number. Their number is not less than 20% of the total population of Indonesia or equal to 46 million people (Badan Pusat Statistik, 2021). Research results from the Center for the Study of Religion and Culture (CSRC) UIN Syarif Hidayatullah Jakarta with The Ford Foundation, the estimated ZIS funds are around 19.3 trillion rupiahs per year, in the form of goods Rp. 5.1 trillion and Rp. 14.2 trillion in cash. Of that amount, one-third of the funds come from zakat fitrah (Rp 6.2 trillion), and the rest is zakat assets of Rp 13.1 trillion (Gazali, 2019).

Zakat is one of the productive sources used as development capital to fulfill the community's needs. Several countries which have excellent zakat management institutions have used zakat as an instrument of economic development (I Mawardi, Widiastuti, Sukmaningrum, & Al Mustofa, 2019). Economic development through zakat is implemented by distributing zakat funds to 8 asnaf in the form of productive funds for community business development (Abdullah, 2019). In the research of Syed et al (2020) which combines the roles of zakat and qardhul hassan as Islamic financial instruments as business financing capital for the poor and MSMEs affected by the Covid-19 pandemic.

In addition to zakat instruments which are one of the foundations of community economic development, waqf is also currently widely used in developing the country's economy. One of them is the development program carried out by the Islamic Relief Worldwide community organization which is currently changing its name to the International Waqf Fund in Birmingham, England. This community organization has provided a lot of socio-economic assistance to many Muslims in the world. Based on the annual report of the International Waqf Fund 2019/2020 (International Waqf Fund, 2020), the collected waqf funds are then distributed to various sectors such as health, education, sustainable livelihoods, and qurban. Waqf for the procurement of hygiene and sanitation (WASH) equipment in Mali. In addition, waqf funds were also distributed for the procurement of medical devices in Yemen and cataract surgery assistance for the elderly in Sudan. During the Covid-19 pandemic, waqf funds collected by the International Waqf Fund were also distributed in the form of food aid in many countries such as the UK, Bosnia, Jordan, and Pakistan. In addition to the health sector, the International Waqf Fund also fulfills educational needs by constructing school buildings and providing training in Palestine, Turkiye, Lebanon, Mali, and Niger.

Based on this example, if it is related to the enormous potential of waqf in Indonesia, the government can also take advantage of waqf funds to be implemented in development in various sectors of community needs. The Indonesian Waqf Agency (BWI) noted that as of January 20, 2021, the accumulated cash waqf funds that had been collected amounted to 819.36 billion. The waqf is divided into cash waqf of IDR 580.53 billion and cash waqf of IDR 283.83 billion. The nazir of cash waqf has reached 264 institutions spread across Indonesia. However, as the largest Muslim country in the world which holds the title of the most generous country (Charities Aid Foundation, 2019), Indonesia should have the potential for waqf of up to IDR 180 T. However, the lack of waqf literacy among the Muslim population causes the Waqf literacy index in 2020 to only be 50, and 48, this figure is still relatively low. The lack of literacy regarding waqf is what causes waqf funds cannot be collected optimally. However, the government and various Islamic financial institutions are trying to maximize the potential of waqf, especially cash waqf as a capital for community economic productivity.

Waqf as a public fund can be managed by anyone as long as the benefits can be returned to the public or society at large. Therefore, the enormous potential of cash waqf as a capital for community economic productivity must be implemented as much as possible. If the amount of potential waqf funds that can be collected is in line with the implementation of the program and the role of the government, then waqf can be the main source of alleviating poverty in Indonesia. Cash waqf funds collected as crowdfunding can be used as capital to form productive communities in the context of alleviating poverty through financing micro-enterprises and developing state infrastructure (Hapsari, Bin Mohd Thas Thaker, Mohammed, & Duasa, 2021; Umar, Baita, Haron, & Kabiru, 2021).

In addition, the government can issue State Sharia Securities as has been issued by the Indonesian government, namely Retail State Sukuk (Ritel Sukuk). Retail Sukuk is a sharia investment product offered by the government to individual Indonesian citizens, as an investment instrument that is safe, easy, affordable, and profitable. Through Retail Sukuk investment, the government offers opportunities directly to Indonesian citizens to support national development. The proceeds from the Retail Sukuk investment will be used to finance infrastructure development which is an investment to strengthen national bonds toward an independent nation (Kemenkeu, 2017).

Based on a previous study by Nopijantoro (2017) SBSN-PBS or project Sukuk has the potential to be further developed as an alternative instrument for infrastructure financing in Indonesia. In addition, this type of tribe also has considerable potential to continue to be developed in line with the development of the domestic Islamic financial market which continues to increase. Therefore, this project Sukuk can be used as an investment instrument and an alternative participation instrument for people who wish to contribute to the development of national infrastructure that requires substantial funds, which cannot be fulfilled through the state budget. Thus the government can suppress the tendency to undertake foreign debt which presents a great hazard.

The explanation above is in line with research conducted by Smaoui, Mimouni and Ben Salah (2021) stated that Sukuk has great potential as capital for the development of state infrastructure. Transparency in the Sukuk financing model minimizes corruption by the government. In addition, infrastructure built with Sukuk financing can reduce the wastage of resources because productive assets are used to provide investors with rental income. A positive relationship between the government and the community is built through Sukuk, thus the development of the country can be carried out properly and the community is prosperous through the sharing of the investment returns.

The utilization of Sukuk funds as capital for national infrastructure development has been implemented in several countries such as Malaysia. Based on previous study by Rahman *et al* (2020), an energy company in Malaysia, Tadau Energy Sdn Bhd, allocated its first green Sukuk worth 250.0 million Ringgit to finance a large-scale 50 MW solar project in 2017. The sukuk are issued using the SRI sukuk framework. Another neighboring country, Brunei Darussalam, also issues Sukuk which focuses on financing infrastructure development projects (Ledhem, 2020). Based on the IIFM Sukuk Report 2019 8th Edition, Autoriti Monetari Brunei Darussalam (AMBD) in 2020 released the 164th Sukuk series worth BND50m. Through this issuance, the Brunei government released short-term Sukuk Al-Ijarah securities worth more than BND12.41 billion after the first offering on April 06, 2006 (International Islamic Financial Market, 2020).

In Indonesia, Sukuk has also begun to be used in various economic development projects. One of them is SBSN, which was first issued in 2013, and has financed 2937 projects with a financing value of Rp 118.3 trillion. Over eight years, SBSN financed bridge construction projects, roads, water resources procurement, transportation, education, laboratories, national parks, and religious activities. The underlying assets in the form of infrastructure projects are issued with various series of State Sukuk. The implementation of Sukuk in infrastructure development provides benefits of infrastructure funding that should be on the side of state expenditure in the APBN that can be allocated to meet the needs of other countries. Thus, the government does not need to set a budget deficit policy with foreign debt.

Based on the three instruments above, it can be seen that foreign debt is not the only instrument that can be used by the government in financing the state budget. Zakat and waqf instruments play a role in creating economic and social development through community empowerment. If the community is empowered and economically independent, it can encourage the level of investment through Sukuk issued by the government. If the investment through Sukuk obtains large funds, various infrastructure development projects can be carried out optimally. Thus, foreign debt can be minimized and avoid default due to the debt trap, as has happened in many other countries such as Zimbabwe and Sri Lanka.

4. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Conclusion

This study aims to explain alternative budget deficit policies that can be implemented by the government through Islamic financial instruments. The implementation of the budget deficit policy is considered irrelevant because the government will only carry out foreign debt which has an impact on the accumulation of state debt. This affects the level of poverty and socio-economic disparities in society because the government does not focus on economic development and efforts to pay off foreign debt. Based on literacy studies supported by various data, this study reveals that three Islamic financial instruments can be an alternative to budget deficit policies, namely zakat, waqf, and Sukuk. This is intended so that the government can minimize the government's tendency to incur debt, especially foreign debt in covering the budget shortfall that has been determined. If this happens continuously, in the long term it can harm the country's economy, like Zimbabwe and Sri Lanka.

Therefore, the author provides several alternatives to utilizing Islamic financial instruments such as zakat, waqf, and Sukuk which have great potential in Indonesia. Through these three instruments, it is hoped that the government can slowly reduce foreign debt activities, and focus on carrying out economic development through these Islamic financial instruments. In addition, the government can also carry out domestic debt by issuing State Sharia Securities to raise public funds in the form of investment in state infrastructure development. Thus, the government can suppress the tendency to incur debt, because in Islam neither individual nor state debt is recommended. If a government tends to incur debt, then this is an example for the community to do the same.

Limitation and suggestions

The results revealed in this study are still focused on discussing budget policy in Indonesia with the potential for implementing Islamic financial instruments such as zakat, waqf, and Sukuk as an alternative to budget deficit policies. Thus, the results of this study can later be generalized by conducting further research in other countries, such as the Turkiye country which also uses a dual conventional and Islamic financial system in determining its country's economic policies. In addition, further researchers can use a quantitative approach by forecasting the impact of foreign debt on the country's economy which can be measured from the poverty rate, income level, and the amount of bank financing that serves to determine the negative impact of foreign debt.

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