

## Utilization of Idle Funds in Islamic Monetary Policy Perspective: Literature Study

Andri Soemitra<sup>1</sup>, Rifki Ismal<sup>2</sup>, Selfi Afriani Gultom<sup>3</sup>, Dalmaisya Gea<sup>4</sup>, Fakrurradhi<sup>5</sup>

### *Abstract*

This study aims to examine how the central bank's monetary policy utilizes idle funds. The task of the Central Bank to maintain monetary stability can be carried out through open market operations. Funds stored in the Central Bank in the form of Statutory Reserves cannot be fully utilized because the Central Bank is not allowed to carry out business activities. Islam provides a way for the benefit of everyone so that there is always a way out in economic activities in monetary policy. Economists have conducted various studies that there are instruments and contracts that can be carried out by the central bank to continue to utilize idle funds. This article is descriptive qualitative research by analyzing previous studies from journals of various countries. This article compares and discusses the monetary policy of Islamic banks in utilizing idle funds. The central bank can issue a central bank certificate in accordance with sharia which has underlying asset and project. The underlying project must be transparent and accountable so that it truly provides benefits for all parties. This not only maintains monetary stability but also provides an increase in economic life and benefits for the community.

*Keywords: Islamic monetary policy, idle funds, transparant and accountable*

JEL Classification: E52, E63, G21, G28

---

<sup>1,3,4,5</sup> Universitas Islam Negeri Sumatera Utara, Medan

<sup>2</sup> Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Bogor

<sup>1</sup> Corresponding author: [andrisoemitra@uinsu.ac.id](mailto:andrisoemitra@uinsu.ac.id)

### **Introduction**

Monetary policy has the main function of regulating the stability of the value of money and the amount of money circulating in each country. This macro policy is expected to be able to respond to microeconomic growth so that real economic growth will be realized. Monetary policy is an attempt to control economic policy. The central bank has its main monetary policy target as an institution that functions to stabilize the economy can take advantage of excess liquidity (idle money) in the economy.<sup>1</sup>

The economic success of a country is largely determined by the determination of the correct monetary policy. Policies are very important because they are related to economic growth and increasing income for the welfare of the community. Conventional monetary policy aims to develop money transmission through interest rate risk, asset-liability mismatch, and deposit and financing instability.<sup>2</sup> However, the fact is that the conventional monetary policies carried out by all countries are unable to provide solutions for the country, especially when facing a crisis.

The central bank's monetary operations in conventional system stipulate that monetary contraction/expansion cannot be directly related to real projects or business activities. A liquidity

contraction, for example, is carried out by selling the central bank's monetary instruments for the money. The fractional reserve banking system which is the backbone of the central bank is still being debated because it is considered unable to solve the world crisis.

Monetary policy in Islam develops in accordance with the development of the attention of scholars and the public towards Islamic economics. Meanwhile, Islam also regulates monetary policy so that it brings the benefit for the society in accordance with the objectives of *sharia*. Islam not only balances supply and demand for money but also creates justice and brotherhood (*ukhuwah*). Islam teaches that wealth should be distributed fairly and equitably so that people will get benefit. Monetary policy in Islam must be carried out according to sharia contracts and according to the Islamic system and is expected to prosper the community, provide economic stability and, most importantly, be able to overcome inflation. Economic stability and inflation can be overcome by printing a low/minimum amount of money, implementing the Dues Idle Fund strategy, and implementing fiscal policy. Innovation is the key to developing short-term liquidity management instruments that are Sharia-compliant. Maldives has proven that there is a need to amend the country's laws to facilitate the central bank in dealing with Shariah compliant instruments.<sup>3</sup>

Ismal (2011) article describes the instruments that the central bank can issue under four contracts, namely Wakalah wa Ijarah certificate instruments, Wakalah wa Ijarah Muntahia Bitamlik certificates, Musharakah Mutanaqisah wa Ijarah certificates, and Islamic Securitization wa Ijarah certificates in using excess liquidity and using it in real business activities and share output (income) based on the contribution of each party.<sup>4</sup> Ismal (2013) asserts that the central bank's monetary policy in sharia can be done by issuing three central bank certificates, namely the qardh hassan central bank certificate, the waqf central bank certificate, and the central bank certificate of grants in utilizing idle funds.<sup>5</sup>

Although there are experts who provide alternatives to continue using conventional monetary policy instruments such as reserve requirements, overall and selecting credit ceiling, moral suasion and change in monetary base, equity based type of securities to control money and credit, while still using Wadiah, Musyarakah, Mudharabah contracts, Ar-Rahn, and Al-Ijarah. However, there will be a long debate because there are unclear contracts that are considered to mix truth and falsehood. As happened in Bangladesh in 2013 due to the political situation, the state did not fully support real sector investment and the Bank did not increase loans and advances to increase profitability but the Bank had to bear the cost of savings. So that other Banks & Financial Institutions experience excess liquidity problems. The situation is shown by Bangladesh Bank (BB) sells more T-Bills & T-Bonds to control its excess liquidity position.<sup>6</sup> Policies that do not fully implement the sharia-compliant system are considered to keep mixing the interest system and there is uncertainty (*gharar*).

Some economists and islamic scholars are very strict so that in whatever form the system created in monetary policy and social relations must remain based on Islamic sharia values. Their opinion emphasized that they should not mix conventional instruments with sharia contracts, especially in utilizing excess funds. On the other hand, there cannot be two central banks in one country.

Based on some of the debates that occurred, this article tries to explain the monetary policy of the central bank in utilizing excess funds. The method used is a literature study in the journals taken from the publish and perish applications and emeraldinsight. The central bank's monetary policy can utilize reserve funds or Statutory Reserves by issuing central bank certificates and offering them to projects that have underlyings. The contracts used must comply with sharia and provide justice for the real sector. Although the central bank may not carry out direct business

activities, it does not rule out the possibility for the central bank to utilize idle funds with sharia-compliant certificates as long as they are carried out in a transparent and accountable manner.

## **Literature Review**

### ***Monetary Policy***

Monetary policy is a state policy in determining regulations and actions in creating economic stability of a country. More specifically, monetary policy is defined as the government's macro action through the central bank by influencing the creation and circulation of money. The central bank has three basic monetary policy instruments available to banks in carrying out their monetary policy. These basic instruments among others are:

(1) the required reserve ratio is the percentage of deposits that must be maintained as reserves which is called the required reserve ratio. Each country determines the amount of reserves that vary according to the conditions of the country.

(2) the discount rate is the interest rate charged by the central bank on its loans to commercial banks. The discount rate determined by the central bank and commercial banks will adjust to the conditions of each bank.

(3) open market operations, which involve buying and selling government securities by the central bank on the open market. This is done to maintain money market conditions and liquidity.

Conventional monetary policy is operated based on interest. Interest rate become the main support in mobilizing money. Even money becomes a trading tool, especially in meeting liquidity needs (Rambe et al, 2018). The sale and purchase of securities really considers what the agreed interest rate is. The sale and purchase of securities in the form of bonds and shares is carried out regardless of whether or not there is a project asset (underlying) in the circulation of the money. Transactions are carried out in the money market with interest determination, especially bonds or debt certificates and must be repaid according to maturity. If the certificate cannot be repaid, there will be a penalty in the form of interest again and so on so that the certificate becomes interest bearing interest and can be transferred at the same rate of interest.

### ***Monetary Policy in Islam***

Monetary policy in Islam must be carried out according to sharia. The monetary policy carried out by the central bank must be free from interest, gambling and gharar (uncertainty). The policies taken must prioritize the benefit according to the objectives of maqashid sharia. Islam not only emphasizes the equilibrium between the demand and supply of money but also strives for equity with the principles of justice and brotherhood, so as to create a fair distribution of wealth and income.

Monetary policy in Islam is based on the basic principles of Islamic economics as follows;

- (a) The supreme power belongs to Allah and Allah is the absolute owner.
- (b) Man is the Leader (Khalifah) on earth, but not the real owner.
- (c) All that is owned and obtained by man is by Allah's permission, and therefore his less fortunate brothers have rights to some of the wealth of his more fortunate brothers.
- (d) Wealth may not be piled up or stockpiled.
- (e) Wealth must be rotated.
- (f) Eliminate the gap between individuals in the economy, in order to eliminate conflicts between groups.
- (g) Establish mandatory and voluntary obligations for all individuals, including poor members of society.

Islamic monetary policy must be free from things that are forbidden, especially free from elements of usury and bank interest. Bank interest is a usury system that is the mainstay of the capitalist economy. Allah clearly forbids the interest system (usury) as stated in Surah Al. Baqarah verse 275 "God has permitted buying and selling and forbids usury ...". Monetary policy must be

carried out by conducting real business activities and based on the principle of profit sharing. Policies applied to Islamic banks must be designed to boost the real sector.

Chapra explains that Islamic monetary policy aims to achieve Islamic socio-economics, namely 1) Broad economic welfare based on full employment with an optimum growth rate; 2) Socio-economic justice and equitable distribution of income and welfare, one of which can be done with a good and correct zakat mechanism; 3) Stability of the value of money so that it truly becomes a truly fair and stable medium of exchange; 4) Mobilization and investment of capital for productive economic development with a fair distribution system for all parties involved; 5) realizing other services, such as primary and secondary markets to meet the need for non-inflationary funding and finance for the government.<sup>7</sup>

Monetary policy in Islam aims in addition to maintaining economic stability but also increasing the development of a country. Successful development is an indicator of overcoming poverty and minimizing social inequality.<sup>8</sup> The creation of justice and binding *ukhuwah* is a reflection of the success of the policies carried out. Even sharia-compliant monetary policy is able to provide positive market returns in its open market operations. Moreover, the policies implemented can overcome inflation and stabilize the economy of a country.

### ***Utilization of Idle Funds in Monetary Policy***

Two of the three central bank monetary policy instruments can be carried out by sharia. The required reserve ratio and open market operations can be carried out by the central bank with sharia transactions and contracts. The main rule that must be followed is that the instrument must be carried out in the presence of an asset project (underlying) of the funds stored for use. The central bank can implement the monetary policy of the central bank in a sharia manner by issuing central bank certificates by utilizing the required reserve ratio set by the central bank for commercial banks. This reserve fund should not be a stored silent fund. These funds should be used by the central bank by utilizing clear and transparent projects or assets followed by appropriate sharia contracts.

Ismal in 2011 proposed that instruments that can be issued by the central bank can be carried out with *wakalah*, *musyarakah* and securitization contracts. So there are 4 certificates that can be used to take advantage of excess liquidity, namely *Wakalah wa Ijarah Certificate*, *Wakalah wa Ijarah Muntahia Bitamlik Certificate*, *Musharakah Mutanaqisah wa Ijarah Certificate*, and *Islamic Securitization wa Ijarah Certificate*.<sup>9</sup> Furthermore, the application of this instrument must be based on real business activities and use a profit and loss system. Any income received must be shared among all contributing parties. Ismal 2013 provides suggestions for instruments that can be used by the central bank in utilizing excess funds with three central bank certificate instruments, namely the *qardh hassan* central bank certificate, *waqf* central bank certificate, and central bank certificate grants. Certificates issued by the central bank must be sharia *sukuk* of various types and models with conditions that are projected on real business activities that are clear, transparent and accountable.

Both conventional bonds and *sukuk* seek to mobilize funds from entities that have excess funds to those who lack funds, in line with the objectives of the financial system. But there are structural and risk-return differences between the two. In conventional bonds, the contract is based on the sale of debt. With *sukuk*, the performance of the contract is closely tied to the asset or project in which the rewards and risks are shared. The two financing alternatives are clearly different. Conventional bonds are based on debt instruments (IOUs), whereas *sukuk* financing is based on an equity-like arrangement. Conventional bond issuers can mitigate financial risk by issuing *sukuk* that do not pose the possibility of bankruptcy in the event of financial difficulties or default. *Sukuk* investors can benefit from guaranteed claims, specific maturities, limited risk, such as equity. *Sukuk* issues are available to governments, financial institutions and investors regardless of their religious

background, beliefs and beliefs. The use of sukuk in conjunction with conventional bonds offers additional opportunities for all types of bond issuers worldwide.

### **Focus of Study**

This study focuses on exploring 95 up-to-date studies related to Islamic Monetary Policy and Idle Fund Utilization that have been published in scientific journals. There are several issues found in the journal such as Islamic monetary policy carried out by the central bank in carrying out its primary and secondary functions, the effect of monetary policy in the transmission process to Islamic banking, central bank policy in managing liquidity (liquidity management), zakat policy, Islamic monetary policy, facing crises, and sharia instruments that can be used to take advantage of excess funds.

This study uses descriptive statistical analysis based on 95 journal publications related to Islamic Monetary Policy and Idle Fund Utilization, both nationally and internationally. The entire sample of journal publications has been published for the last 10 years from 2010 to 2021. The study only focuses specifically on journal articles with the theme of Islamic Monetary Policy and utilization of Funds and everything related to the utilization of reserve funds stored in the central bank. Furthermore, a review and analysis of the articles or journals that have been collected is carried out. The classification of the analysis is based on a review of the abstraction, content, and overall research results in general. Although it does not rule out the occurrence of slices of categories and classifications. There are also difficulties in sorting out the classifications of existing articles.

### **Methods**

This research is a descriptive analysis research with literature study. This study uses secondary data for the period 2010 - 2020 which has been published as a scientific journal both nationally and internationally related to Islamic Monetary Policy and Excess Fund Utilization and related to Islamic monetary. These journals are obtained or accessed online from published journals. The methodology used in this study is a qualitative method approach with descriptive statistics, a literature study of 95 journals and research on Islamic Monetary Policy and Excess Fund Utilization and other related articles. Journals were obtained with the Publish and Perish software as many as 100 articles and manually 10 special articles from emeraldinsight. Furthermore, there are 10 articles that do not match the discussion material and there are 5 journals that have been obtained manually from emeraldinsight. So there are only 85 articles from Publish and Perish and 10 articles downloaded manually from emeraldinsight.

The articles or journals obtained are classified according to the content of the discussion, namely concepts, stabilization and unconstitutionalization. Content analysis in this study is a systematic technique to analyze the meaning of messages and how to express messages related to monetary policy in the use of excess funds. Each article has been classified using excel to divide it into several parts of explanation, namely citation (reference), abstract, findings, conclusions, type of research, type of approach and year of publication. Furthermore, conclusions will be drawn from each area of discussion of the article.

### **Results**

Based on the search results, there are 95 published journals both national and international journals related to Islamic Monetary Policy and Excess Fund Utilization from observations of the last 10 years. The distribution of journals per year shows the number of published journals varies from 2010 to 2020 with a range of two to 19 journals. The most journal publications related to Islamic Monetary Policy and Utilization of Idle Funds were in 2019 (20%). Meanwhile, there were fewer journal publications compared to other years, namely in 2010 (2%).

In general, there are 20 percent of research that discusses monetary policy in utilizing excess funds over the last 10 years in the form of policy analysis and generating new ideas. Furthermore, there are 30 percent are descriptive studies that make observations and observations with qualitative. Observations are carried out by observing and examining the effects, data and events that occur from the policies implemented. Malaysia is the country with the most examples. The focus of the study also tries to examine more deeply related to 20 percent of the research in the form of influence testing with quantitative methods. Quantitative research supports and proves the proposed theories and concepts. The most quantitative research conducted is to examine the effect of financial instruments issued by the central bank on economic stability with different proxy indicators.

The results of this study indicate that there are a number of subjects for discussion in each journal related to Islamic Monetary Policy and Idle Funding. The most research is on the concept of Islamic Monetary Policy and Idle Funds Utilization of 28 journals (29%) from 95 journal samples, followed by the subject of Policy Stability. Islamic Monetary and Idle Funds Utilization are 32 journals (34%), then Institutionalization (institutional, legal and regulatory) Islamic Monetary Policy and Idle Funds Utilization are 22 journals (23%), the remaining 13 journals are supporting journals. The results of further research indicate that Malaysia is a country that has published journals. Meanwhile, the journal institution that publishes the most articles is the International Journal of Islamic and Middle Eastern with the published by Emeraldinsight.

The results of the search for several articles start from the importance of sharia monetary instruments in the framework of monetary policy that can resolve a country's crisis and stabilize the economy. Hamisu's article (2010)<sup>10</sup> explains that the global financial crisis has caused conventional financial institutions to be reluctant to provide funds for infrastructure development for both developed and developing countries. This article describes Nigeria can take advantage of low-cost financing options through Islamic financing instruments such as Sukuk (Islamic bonds) and Mushakarah (Joint ventures). The Country also can take non-interest instruments that can provide much-needed financing for critical infrastructure developments as well as collaborate with Islamic development banks to access free donations and interest-free loans for infrastructure investments that are critical to achieving the millennium development goals. This study provides a policy for the Nigerian central bank to establish a National Shariah Advisory Board which will be responsible for guiding Islamic financial institutions in Nigeria. Nigeria arise to ensure that their activities are fully compliant with Shariah principles; as well as conventional financial institutions that are willing to continue providing Islamic products and services to customers. Nigeria will also be advised by the board on how to ensure that the products and services they specifically design for their customers are Shariah compliant.

Ismal's article (2011)<sup>11</sup> explains the differences between conventional economic views and those that should be carried out according to Islamic sharia. The conventional economics of monetary operations stipulates that monetary contraction/expansion cannot be directly related to real projects or business activities. A liquidity contraction is carried out by selling the central bank's monetary instruments for money. This contradiction is one of the main obstacles to the implementation of sharia contracts in Islamic financial institutions. However, the increasingly progressive development of the Islamic banking industry demands the right Islamic monetary instruments to control the industry and the economy in general. In fact, several countries such as Malaysia, Pakistan and Sudan which lead the implementation of Islamic banking have launched several Islamic monetary instruments to manage their liquidity. This article gives example that Bank Negara Malaysia (BNM) utilizes sukuk murabahah/tawarruq short-term securities and BNM commodity murabahah receipts. However, the instrument is operated with akad bay al-innah and tawarruq contracts which are contracts that are still being debated among Islamic scholars and the majority of them declare such contracts prohibited. In fact, the central bank can use the interest-free

Statutory Reserves Requirement (SRR) to control sharia-compliant liquidity. Ideally, Islamic monetary instruments can handle certain projects/assets in the real sector while liquidity in the SRR (Statutory Reserve Requirement) is idle (not used). However, SRR is not considered an ideal Islamic monetary instrument because it generates interest. The central bank has four different options of Islamic monetary instruments depending on the target of Islamic monetary operations. However, unlike conventional monetary operations, Islamic monetary operations do not create extra liquidity (creation of fiat money) but instead activate economic activities by utilizing unused ones (excess liquidity). The four instruments that can be used to take advantage of excess liquidity are Wakalah wa Ijarah certificates, Wakalah wa Ijarah Muntahia Bitamlik certificates, Musharakah Mutanaqisah wa Ijarah certificates, and Islamic Securitization wa Ijarah certificates. Ismal completed his article in 2013 by proposing three instruments of there are three central bank certificates, namely the qardh hassan central bank certificate, waqf central bank certificate, and central bank certificate grants.

The next research is on the policy of utilizing idle funds into the proposed instruments such as waqf certificates and qardhul hassan certificates. Waqf is known as waqf performed by Muslims for charitable purposes such as for education or religious purposes. Waqf is very important for the development of Muslims, and is one of the recommended practices in Islam. However, this waqf certificate policy often lacks the trust of the ummah. This study proposes the proper integration of Waqf and Unit Trust investment capital market apparatus based on sharia standards ratified by the Malaysian Security Commission (SCM) guidelines. This study selects the thematic analysis method from the existing literature on Waqf financing. This finding indicates that there is a need for new tools such as trust instruments for Waqf units through cash waqf and stock waqf to realize greater accumulation, investment, and distribution of waqf funds. It is highly recommended that investment income be utilized optimally for socio-economic projects. Khaliq's article (2019)<sup>12</sup> proposes that it be realized as one of the pioneering efforts to collect Waqf funds through the unit trust model as the source and demonstrates the effort to manage this model. This study proposes a proper integration of the Waqf and Unit Trust investment capital market apparatus based on sharia standards ratified by the Malaysian Security Commission (SCM) guidelines. This study selects the thematic analysis method from the existing literature on Waqf financing. This finding indicates that there is a need for new tools such as trust instruments for Waqf units through cash waqf and stock waqf to realize greater accumulation, investment, and distribution of waqf funds. It is highly recommended that investment income be utilized optimally for socio-economic projects. This study is realized as one of the pioneering efforts to collect Waqf funds through the unit trust model as the source and demonstrates the effort to manage this model. The research is strengthened by Zauro's article (2020) that the use of Islamic financial instruments namely zakat, sadaqah and qardhul Hassan is a means to improve socio-economic justice and financial inclusion in the Nigerian Muslim community which is negatively affected by the high level of financial exclusion and poverty as has been practiced previously. in Muslims. the world throughout Islamic history.<sup>13</sup>

The IS-LM model proposed by Hicks-Hansen is a two-dimensional policy model that shows the relationship between interest rates and market assets. The IS-LM model as a balance model, debates among Islamic economists the relevance of the model used in Islamic economics. After conducting exploration and analysis, IS-LM model is relevant to be used for an approach in analyzing the balance of the goods market and money market, with a note that the IS-LM model has been reconstructed to adjust to Islamic economic variables. With this approach, a model of the goods market and money market balance is formed in accordance with the Islamic concept. The qardhul hassan based monetary policy also increases the surplus and exports and reduces imports as well as increases the flow of funds and foreign currency reserves to the Central Bank so as to make

monetary policy more effective<sup>14</sup>. Subsequent research by Selim (2020) explains that when the central bank acts as a lender of last resort (LOLR) by implementing a Qardhul Hasan-based monetary policy, the central bank automatically empowers Islamic banks by providing access to borrow funds from the central bank in a qardhul hassan basis.<sup>15</sup> The results show Islamic banks do not need to hold billions of dollars as liquid assets to deal with liquidity risk. The qardhul hassan-based monetary policy positively affects the real sector of the economy and increases output, and the economy returns to full employment. The qardhul system has provided the lowest possible cost of credit throughout the economy and thus triggered a rightward shift in the aggregate supply curve and thus increased output and lowered prices. In addition, an increase in output eliminates excess demand or shortage and maintains prices.

Muwazir et al (2018) explain in a quantitative article that the CAR and FDR variables are the variables that contribute the most to changes in transaction volume on Islamic monetary instruments carried out by Islamic banking in Indonesia<sup>16</sup>. The SBIS instrument has a better influence on the performance of Islamic banking in Indonesia than the SBPUS. CAR and FDR variables are the variables that contribute the most to changes in transaction volume on Islamic monetary instruments carried out by Islamic banking. The SBIS instrument has a better influence on the performance of Islamic banking in Indonesia than the SBPUS.

The other search results are related to quantitative methods regarding the effects of existing monetary instruments on liquidity management. Previous research has been carried out by Ismal (2019) by proposing a Sukuk model for Islamic monetary instruments (central bank Sukuk) which refers to the IILM (International Islamic Liquidity Management) Sukuk model<sup>17</sup>. Al-Harbi's research (2020) explains that studies on the liquidity of Islamic banks are limited and most of the previous empirical studies are single country studies<sup>18</sup>. This study adds significantly to the literature related to the liquidity of Islamic banks. Research shows that all independent variables have a significant effect on IB liquidity but with different signs. On the one hand, capital adequacy, size, GDP growth, market capitalization and concentration have a positive relationship with IB liquidity. On the other hand, foreign ownership, credit risk, profitability, inflation, monetary policy and deposit insurance schemes are negatively correlated with liquidity. The negative effects of the last six variables on IB need to be addressed by policy makers and bank management. For example, policymakers and regulators need to redesign deposit guarantee schemes to limit foreign ownership and increase bank supervision. In the same way, IB management needs to increase its risk management practices as well as improve its techniques in anticipating changes in inflation. In addition, it is recommended that IBs increase their size to an optimal level by developing developing products, increasing the number of branches and attracting more customers. The scope of this research is limited to knowing the determinants of IB liquidity in the period 1989-2008, the period after 2008 is not included to avoid the impact of the financial crisis. This study shows that sharia liquidity management is not only able to increase income but also overcome the crisis that occurred because the data was for the period until 2008 when the crisis occurred. Muneezaa (2020) explains that innovation is the key to developing short-term liquidity management instruments that are compliant with Sharia<sup>19</sup>. The Maldives example has proven that there is a need to amend the country's laws to facilitate the central bank to deal with Shariah compliant instruments.

## Discussions

Monetary policy is a task and function carried out by the central bank. There are some specific part from conventional monetary policy that is not in accordance with the objectives of *sharia*. A policy is carried out primarily to obtain the solely material benefit. Islamic monetary



policy must be developed in order to achieve community economic improvement and operates in accordance with sharia teachings. If only applying conventional policies that solely based on material, especially in Muslim-majority countries, it is a setback if its compared to the spirit of Islam and the awareness to practice Islam. State policies must be in line with the aspiration of muslim communities.

The dual banking policy has been implemented by various countries, especially Muslim-majority countries. The policies applied to Islamic banks are designed to boost the real sector. Contract policies and transactions within the framework of sharia, all activities of money circulation and mobilization must have a business project (underlying). Meanwhile, based on the rules of banks around the world, Central Banks are not allowed to carry out business activities. This dilemma is the thought of Islamic economic experts to find the best way to bring up sharia contracts and transaction models that can still be carried out by the central bank. Central bank policy that can be done is to utilize excess funds (idle funds).

The central bank's monetary policy is carried out in three ways, namely setting reserves or minimum statutory reserves (GWM). Another policy carried out by the central bank is to set interest rates and open market operations by selling central bank certificates in the money market, especially the international money market. The Statutory Reserves Policy is a problem because there are funds that are stored and not being used. These funds are only taxed without being mobilized for business interests that can provide profit. Islamic economics strongly recommends that existing funds be run in business activities so as to generate profits that can be shared with all interested parties. Furthermore, the results will continue to flow to everyone and rotate to provide an increase in the community's economy. This long cycle may not have an impact on a macro basis, but if explored further, the circulation of these funds will maintain economic stability and money circulation.

The best system that can be run by an Islamic central bank is to provide the best system and model by setting 100% reserves (GWM) that can be used and providing profit and loss sharing. The impact that occurs by utilizing 100% of these reserves is very positive, namely the stability of the economy is relatively stable and can stimulate the investment climate without weakening the banking liquidity aspect. Reserve funds that are fully utilized for investment stimulate subsequent investment which will provide an increase in the real sector. So running a backup (reserve) 100% becomes a must. Even injustice and usury' can be avoided under a full reserve system.

Sharia economic experts such as Chapra have formulated the basic foundations of policies that can be carried out. Furthermore, sharia economic experts and researchers such as Rifki Ismal provide proposals for sharia contracts and instruments that can be carried out by central banks, especially utilizing excess funds. Conventional monetary policy instruments that do not charge interest and can be directly monitored in the money market are (a) mandatory reserve ratios, (b) credit ceilings; (c) credit allocation; (d) liquidity ratio. Furthermore, sharia monetary policy instruments that can be directly intervened in the money market are: (a) the ratio of interest-free loans (Qard-Hasan) to loans offered by commercial banks; (b) the central bank's refinancing ratio of interest-free loans provided by commercial banks; (c) profit margins on murabahah investments, profit sharing ratios on mudharabah and musyarakah investments, and administrative compensation on mudharabah and musyarakah investments offered by commercial banks; (d) the ratio of interest-free government securities in the down payment portfolio of commercial banks, and (e) investment deposits with unlimited Mudarabah contracts offered by the central bank to commercial banks whenever they experience liquidity shortages.

Furthermore, policies in short-term open market operations can be carried out by issuing investment certificates supported by equity and shares from various investment funds set by the government and sharing profits with Islamic financial institutions, for example, central bank musyarakah certificates and government musharaka certificates. Non-inflationary Islamic monetary policy instruments to finance budget deficits and manage the money supply are the central bank Ijarah certificates, Islamic Ijarah certificates, and Islamic development certificates and Bai' Salam

certificates that have been discovered by the central bank. While interest-free bonds can be used for two purposes: as a monetary policy tool through direct intervention by the central bank to the money market, and as a budget tool to finance seasonal budget deficits.

Other certificates that can be used are Qardl Hassan certificates, waqf certificates and grant certificates. Qardl hassan certificates can increase exports so that the circulation of money occurs and provides good profit sharing for all parties. Likewise, waqf certificates are very possible because Islamic waqf funds, especially in Muslim-majority countries, have enormous potential. However, the many problems of waqf management make the people's trust lost. Malaysia provides an overview of good waqf management by proposing a proper integration of waqf and investment capital market apparatus Unit Trust based on sharia standards. This also applies to zakat, infaq and grants.

Islamic banks are relatively better in profitability, efficiency, risk and liquidity management, while conventional banks are superior in asset quality. The risk management practice of Islamic banks is superior to that of conventional banks, because Islamic rules limit pure speculation in monetary terms. Better asset quality than conventional banks is associated with the recognition and diversity of their products. Islamic banks have a higher intermediation ratio, have a higher proportion of income (fees) to total operating income but are less efficient.

A very important thing in this monetary policy is transparency and accountability, namely the clarity of the reserves funds that are used and the open market operations carried out. Muslims are people who have empathy and good ukhuwah. However, trust is the main capital for everything related to money, both in the form of qardl Hassan, waqf and grants. The quality of reports on the use of funds with transactions and sharia contracts will provide positive values and even benefits will be realized more quickly if all are reported in a transparent and accountable manner. The clarity of the flow of funds used must be proven so as to provide profit sharing for all parties with appropriate proportions. The party who manages assets in the use of funds must also be clear and open. Transparency and accountability are evidence of the honesty of money managers and policy makers so as to gain public trust. The sharia methods and models that have been designed must be followed by transparent and accountable accountability.

This research has the limitation of only summarizing 100 published and published journals from 2010 to 2020 and only getting 85 articles because 15 articles have similarities and do not match and manually resume 10 journals from emeraldinsight publishers. Subsequent research can be further and more journals from journal publishers that are more varied as sources of literature studies.

## Conclusion

The monetary policy of the central bank in several Muslim countries is carried out with a dual banking system. The central bank carries out two policies, namely conventional monetary policy and sharia monetary policy. This is a positive development so that Islamic monetary instruments can still be used in sharia transactions because there cannot be two Central Banks in one country.

Sharia monetary policy is carried out by utilizing excess funds. The main policy is to utilize reserves or the Statutory Reserves must be 100% because these reserves are silent savings funds. Utilization of 100% reserve funds can create increased investment, strengthen economic stability and avoid usury. Other policies are carried out with open market operations with sharia instruments. Both of these policies must be carried out with sharia contracts and transactions.

Instruments that can be used to take advantage of excess liquidity are Wakalah wa Ijarah certificates, Wakalah wa Ijarah Muntahia Bitamlik certificates, Musharakah Mutanaqisah wa Ijarah certificates, and Islamic Securitization wa Ijarah certificates. Three instrument certificates that can be used are qardh hassan central bank certificate, waqf central bank certificate, and central bank grant certificate. All monetary policies carried out by the central bank by utilizing excess funds must be based on real business activities. Business activity is the underlying that will avoid usury

and gharar. But one thing that is very important is that business activities, managed asset projects and accountability reports must be real, transparent and accountable so that they truly provide benefits and prosperity for the community and can even maintain economic stability, prevent inflation and crises.

## Bibliography

1. Abdullah, Abdul Karim. (2013). "The Pitfalls of Riba or Interest-Based Financing". *ICR Journal* 4 (1):63-79. <https://doi.org/10.52282/icr.v4i1.492>.
2. Adela, H. (2019), "*The impact of Musharakah financing on the monetary policy in the Islamic economy*", *Review of Economics and Political Science*, Vol. 3 No. 3/4, pp. 139-152. <https://doi.org/10.1108/REPS-10-2018-014>
3. Al Ajlouni, A.T. (2017), "Interest free liquidity management scheme (time-weighted debt units)", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10 No. 1, pp. 60-76. <https://doi.org/10.1108/IMEFM-05-2015-0060>
4. Al-Harbi, A. (2020), "Determinates of Islamic banks liquidity", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 8, pp. 1619-1632. <https://doi.org/10.1108/JIABR-08-2016-0096>
5. Bijoy Chandra Das. (2014). Investment in Treasury Bills and Treasury Bonds in 2013: A Study of Bangladesh. *International Journal of Economics, Finance and Management Sciences*. Vol. 2, No. 2, 2014, pp. 182-187. doi: 10.11648/j.ijefm.20140202.20
6. Chapra, M. U. (1996). Monetary management in an Islamic economy. *Islamic economic studies*, 4(1).
7. Dolgun, M.H., Ng, A. and Mirakhor, A. (2020), "Need for calibration: applying a maximum threshold to liquidity ratio for Islamic banks", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 13 No. 1, pp. 56-74. <https://doi.org/10.1108/IMEFM-03-2018-0098>
8. Grais, W. and Rajhi, W. (2015), "Islamic finance, contagion effects, spillovers and monetary policy", *Journal of Islamic Accounting and Business Research*, Vol. 6 No. 2, pp. 208-221. <https://doi.org/10.1108/JIABR-12-2012-0079>
9. Hamisu, Ibrahim, (2010). "Islamic Finance, an Alternative Strategy to Protect Finance and Infrastructure Development : Option for Nigeria". *Journal of Management and Corporate Governance*
10. Ibrahim Awad, (2015). "Conducting Monetary Policy under a Fully-Fledged Islamic Financial System " *Journal of Islamic Economics, Banking and Finance*, Vol. 11 No. 1, Jan-March 2015
11. Ismal, R. (2011), "Central bank Islamic monetary instruments: a theoretical approach", *Studies in Economics and Finance*, Vol. 28 No. 1, pp. 51-67. <https://doi.org/10.1108/10867371111110552>
12. ----- (2013), "The Islamic gracious monetary instruments: a theoretical approach", *Journal of Economic and Administrative Sciences*, Vol. 29 No. 1, pp. 63-80. <https://doi.org/10.1108/1026411131131923>
13. ----- (2019). Sukuk Model for Islamic Monetary Instrument in Indonesia, *Journal of Economic Cooperation and Development*, 40, 4 (2019), 119-138
14. Ismail. Ghafar, Abdul. (2017) "Full reserve system and the Maqasid Shariah / Zuriyati Ahmad, Abdul Ghafar Ismail ". *Journal of Emerging Economies and Islamic Research (JEEIR)*, 5 (2). pp. 1-9. ISSN 2289 – 2559
15. Khan, I., Khan, M. and Tahir, M. (2017), "Performance comparison of Islamic and conventional banks: empirical evidence from Pakistan", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10 No. 3, pp. 419-433. <https://doi.org/10.1108/IMEFM-05-2016-0077>

16. Khaliq, A., Hussin, N., & Haji Mohammad, M. T. S. (2019). Waqf Unit Trust as an Alternative Model to realize Waqf Sustainability. *European Journal of Islamic Finance*, (13). <https://doi.org/10.13135/2421-2172/3623>
17. Ma'aji, Muhammad and Rahima Ali, Abbas and Hassan Hadi, Ahmad, (2014) Performance of Asset and Commodity-Based Securities in Malaysia's Islamic Inter-Bank Money Market (December 31, 2014). *Journal of Islamic Banking and Finance*, Vol. 2, No. 2, pp. 1-13, December 2014, Available at SSRN: <https://ssrn.com/abstract=2574518>
18. Muneeza, A. (2020), "Short-term Shari'ah-compliant Islamic liquidity management instruments to sustain Islamic banking: The case of Maldives", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 2, pp. 428-439. <https://doi.org/10.1108/JIABR-04-2018-0055>
19. Muwazir, Rizal, Moch. Anwar, Deky. dan Ab. Mumin Ab. Ghani, (2018), The Role of Sharia Monetary Instrument in Liquidity Management and Performance Improvement of Islamic Banking Financial in Indonesia, *Al'adalah*, Vol. 15, Nomor 2,
20. Ramasamy, Mohammad Farhad Zangeneh, Ravindran. (2013). Convergence of Islamic and Conventional Interbank Rates. *Global Journal of Management And Business Research*, [S.I.], apr. 2013. ISSN 2249-4588
21. Rambe, P.; Dewi, C.; and Ginting, S. (2018). Determinants of Intellectual Capital Disclosure by using Monetary and Non-monetary Variables. In *Proceedings of the 1st Unimed International Conference on Economics Education and Social Science - Volume 1: UNICEES*, ISBN 978-989-758-432-9, pages 1097-1102. DOI: 10.5220/0009504810971102. <https://www.scitepress.org/PublicationsDetail.aspx?ID=7R4B+T8UR48=&t=1>
22. Ridwan, Agus and Poespowidjojo, Donny Abdul Latief, (2017) The New Effective Model of Financing Without Providing Collateral and Free of Risk for Developing Small and Medium Enterprises. *International Journal of Economic Research*, 14 (15 (2)). pp. 23-34. ISSN 0972-9380
23. Salman Masood Sheikh, Pirzada Sami Ullah Sabri , Muhammad Khyzer bin Dost, Muhammad Wasim Akram, Muhammad Luqman, (2018). "Analysis of Asset Model for Liquidity Risk Management in Islamic Banks of Pakistan." *Abasyn Journal of Social Sciences – Special Issue: IGCETMA 2018*
24. Salvi, A., Zito, M., & Caragnana, A. (2019). Does it pay to be Shariah-compliant? Evidence from the European stock market. *European Journal of Islamic Finance*.
25. Selim, M. (2019), "The effectiveness of Qard-al-Hasan (interest free loan) as a tool of monetary policy", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 12 No. 1, pp. 130-151. <https://doi.org/10.1108/IMEFM-07-2017-0187>
26. ----- and Hassan, M.K. (2020), "Qard-al-Hasan-based monetary policy and the role of the central bank as the lender of last resort", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 2, pp. 326-345.
27. Soliha, Sanusi, Muhammad Hakimi Mohd Shafiai, (2015). "The Management of Cash Waqf: Toward Socio-Economic Development of Muslims in Malaysia"
28. Yusuf. Jelili Amuda and Nor Azizan Che Embi, (2013). "Alleviation of Poverty among OIC Countries through Sadaqat, Cash Waqf and Public Funding." *International Journal of Trade, Economics and Finance*, Vol. 4, No. 6, December 2013. DOI: 10.7763/IJTEF.2013.V4.326
29. Tahmoures A. Afshar and Majed R. Muhtaseb. ( 2014). "Do Sukuk (Islamic Bonds) Have a Role in Today's Global Capital Markets?" *The Journal of Structured Finance Summer 2014*, 20 (2) 74-80; DOI: <https://doi.org/10.3905/jsf.2014.20.2.074>