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Islamic Macro Economy: A New Paradigm

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ABSTRACT

This study seeks to explore Islamic macroeconomics as a new paradigm and its application in controlling inflation, monetary and fiscal in conventional and Islamic macroeconomics. Then explore some points about the development of macroeconomics at the time of the Prophet Muhammad. The approach method used in this study is descriptive qualitative analysis, with library research data collection techniques using secondary data in accordance with a number of relevant literature. Then the data analysis technique was carried out by inductive deductive techniques. The results show that monetary policy is an important instrument of political policy in the economic system, both conventional and Islamic and this policy has existed and began to develop since the time of the Prophet Muhammad. The fundamental difference between Islamic and conventional macroeconomics lies in the purpose and prohibition of interest in Islam, the condition for achieving and ensuring the proper functioning of the monetary system is that the monetary authority must supervise the entire system. Monetary policy and fiscal policy are macroeconomic policies that are very important in relation to achieving inflation targets and economic growth. Therefore, in an effort to overcome inflation, monetary and fiscal policies, the government can carry out various macroeconomic policies to achieve inflation targets and economic growth.

Keywords: *Macro economy, Islam, Paradigm*

INTRODUCTION

Economics began to develop with the writing of a book by an economist Adam Smith entitled "An Inquiry Into Nature And Cause of the Wealth of Nations". Part of Adam Smith became the basis for the following economists, namely Thomal Malthus, David Ricardo and John Shert Mil. These economists are grouped as classical economists. The classical tradition in its development became microeconomic theory.

The other side of the development of Adam Smith's economics is the liberal economy developed by Karl Mark which is embraced by communist social countries, namely the radical group or the "New Left" group.

The economic depression that occurred in 1930 (20th century) gave birth to a new economist, namely John Maynard Keynes, with his famous law "General Theory of Employment, Interest and Money" which became the development of macroeconomic theory. The development of the economic situation is getting faster and more complicated so that it cannot be separated by the tools that have been developed by the Classics and Keynes such as ,uncertainty, economic dynamics stagnationfutureetc.,, rational expectations, supply side economists.

Basically, macroeconomics has existed since the time of the Prophet Muhammad, where we know that Islamic economics is one element that cannot be separated from the development of Islamic history. This is because the economy is a pillar of faith that must be considered. In controlling the macro economy at the time of the Prophet was the application of fiscal policy which consisted of several elements, including: the economic system, finance and taxes, sources of state revenue, expenditure management and baitul mal. Not only did the development of the macro economy stop there, then also continued during the Khulafaur Rasyidin era, economic control was still carried out with various factors that money could control it.

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Factors in macroeconomic control One of the main factors in macroeconomic control is the inflation rate, which in Indonesia is measured by level. changes in the Consumer Price Index (CPI). With the increasingly complex structure of the economy, trade and finance, the more complicated the method of lasi. Various policy combinations must be used appropriately, such as monetary policy, fiscal policy, trade policy, pricing and indexing policies and policies (Alesina & Perroti, 1995).

Within the framework of monetary policy, inflation can be suppressed by arranging to increase the interest rate of the discount facility. Meanwhile, in fiscal policy, inflation can be achieved, among others, by creating a budget surplus, namely by reducing total demand by reducing government spending, or by increasing tax rates. In terms of tariff policy, inflation control can be done by lowering import duty rates for imported goods.

This is expected to lower production costs and in turn reduce inflationary pressures originating from the supply side. The policy of determining the maximum price (celling price) and determining the wage index for workers can also control inflation, especially for goods and industries that have a large proportion in raising the inflation rate. Inflation control should actually be done by comparing the domestic inflation rate with the inflation rate in the main trading partner countries.

Higher inflation rates at home compared to major trading partners will cause the relative prices of export products to increase abroad, thereby reducing the competitiveness of these products in the international market. Therefore, exchange rate management is also an important part of the integrated inflation control cooperation. Inflation from the public supply side can be explained by an increase in production costs, such as wages, raw material prices, and so on. Therefore, to control it (Adiningsih, 1996).

Inflation control is very important to be one of the government's concerns for several reasons. Inflation can worsen the distribution of income by becoming unbalanced, causing a reduction in domestic savings which are a source of investment funds for developing countries.

Inflation can also lead to a deficit in the trade balance and an increase in foreign debt. One of the effective policies to overcome unstable economic conditions in a country is through fiscal policy. The economic stability of a country is reflected in price stability, in the sense that there are no major price fluctuations that can harm society, both consumers and producers, which will damage the foundations of the economy.

The increase in prices that causes inflation can be classified and if the prices rise slowly then the inflation that occurs is referred to as "Creeping Inflation". If prices increase rapidly, the condition is referred to as "hyperinflation" or inflation that exceeds 50 percent per month or more than 1 percent per day (Mankiw, 2003). Inflation control by using several appropriate policy instruments will lead to good macroeconomic stability. So that the creation of prosperity and welfare of the community as well as economic and social justice can be realized.

Rahma Saiyed (2021) in his research states that in an effort to overcome inflation, monetary and fiscal policies, the government needs to carry out macroeconomic policies in relation to achieving inflation targets and economic growth. Thus, each country needs to maintain economic stability in accordance with the challenges it faces. On the other hand, Munir Tubagus (2006) said that the correct calculation of the monetary impact of the government budget, an increase in the source of domestic savings through tax revitalization and changes in taxation strategies. Cutting non-tax levies through authoritative and enforceable laws will be able to create an integrated state financial system and so that its role as allocator, distributor and stabilizer can function optimally.

Moving on from the problems above, the main thing studied here is the development of macroeconomics as a new paradigm, as well as the application of macroeconomics in controlling inflation, monetary and fiscal and its impact on the conventional and Islamic economy. The importance of this review is carried out, considering the current growth, movement and challenges of the economy, especially in the macroeconomic sector, need to be reconsidered.

METHOD

This paper uses a descriptive analytical method and a qualitative approach. These methods and approaches are used to explain the literature review on Islamic macroeconomics and its application in

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controlling inflation, monetary and fiscal and its impact on the conventional and Islamic economy. Sources and data collection techniques were obtained from literature studies and other literature sources relevant to the research object. The data analysis technique was carried out deductively and inductively to find a conceptual formulation of Islamic macroeconomics as a new paradigm and its application in controlling inflation, monetary and fiscal. Through the results of this study, it is expected to obtain final conclusions to strengthen and develop relevant previous research results.

RESEARCH RESULTS AND DISCUSSION

The Development of Islamic

Macroeconomics Islamic Macroeconomics is a science that discusses macroeconomic policy issues, in the form of management and control, in accordance with Islamic teachings. In discussing the perspective of Islamic Economics, there is one starting point that we really have to pay attention to, namely: economics in Islam actually boils down to the Islamic creed, which comes from the Shari'a. And this is part of one side. Meanwhile, from the other side are the Al-Qur'an al-Karim and As-Sunnah Nabawiyah which are in Arabic. Therefore, various terms and economic substances that already exist must be formed and adjusted in advance within the Islamic framework. Or in other words, words and sentences must be used in a lughawi frame. So that it can be realized the importance of this problem point. Because clearly, firmly and clearly able to provide a correct understanding of the terms need, desire, and scarcity (al-nudrat) in an effort to solve human economic problems.

The development of Islamic economics is something that cannot be separated from the development of Islamic history. Islamic thought began when the Prophet Muhammad was chosen as an Apostle. Rasulullah saw issued a number of policies concerning various matters relating to social problems, in addition to legal, political, and commercial or economic issues. The economic problems of the people became the main concern of the Prophet, because economic problems are pillars of faith that must be considered. The developments of thought during these times were as follows:

1. Fiscal Policy at the Time of the Prophet SAW

At the time of the Prophet Muhammad, the thoughts and mechanisms of political life in Islamic countries were sourced and grounded in the values of aqidah. The birth of fiscal policy in the Islamic world is influenced by many factors, one of which is because fiscal is part of the public economic instrument. For this reason, factors such as social, cultural and political are included in it. The challenge of the Prophet Muhammad was very big where he was faced with an uncertain life both from internal and external groups, in the internal group the Prophet Muhammad had to solve the problem of how to unite the ansar and the people. emigrants after moving from Mecca to Medina. Meanwhile, the challenge from the external group was how the Apostle could compensate for the harassment from the Quraysh infidels. However, the Messenger of Allah was able to overcome all his problems thanks to the help of Allah swt. In the history of Islam, public finance developed along with the development of the Muslim community and the formation of Islamic citizens by the Prophet Muhammad after the hijrah. Seeing such uncertain conditions, the Messenger of Allah made efforts known as fiscal policy as a leader in Medina, namely by carrying out economic elements. Among them are as follows:

a. Economic

System The economic system applied by the Prophet Muhammad was rooted in the principles of the Qur'an. The most basic principle of Islam is that the supreme power belongs to Allah alone and that every human being is created as his caliph on earth. And here are some of the main principles of Islamic economic policy which are explained in the Qur'an as follows:

1) The highest power belongs to Allah swt.
2) Humans are only the caliph of Allah swt on earth.
3) Everything that is owned and obtained by humans is by the grace of Allah swt, therefore, humans who are less fortunate have the right to some of the wealth owned by their brothers.
4) Wealth must be played and should not be hoarded.

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5) Economic exploitation in all its forms, including usury must be eliminated.
6) Establishing the inheritance system as a medium for redistribution of wealth that can legitimize various individual conflicts.
7) Eliminate the gap between the poor and the rich.

b. Finance and Taxes

In the early years since it was declared a State, Medina had almost no source of state revenue or expenditure. All State tasks are carried out in mutual cooperation and voluntarily. The Prophet Muhammad himself was a head of state who also served as chairman of the supreme court, grand mufti, supreme warlord, and person in charge of state administration. He does not get a salary from the State or society, except for small gifts which are generally in the form of food. And at that time there was also no army in a formal or permanent form. Every Muslim who has a strong physique and is able to fight can become a soldier. They do not get a fixed salary but are allowed to get property from the spoils of war, such as weapons, horses, camels, and other movable goods.

2. Fiscal Policy during the Khulafaur Rashidin

Period of the Caliphate of 'Umar Ibn Khaththab (13-23 H/634-644 AD)

Umar bin Khattab ra ruled only for ten years, but in that short period there were many progress experienced by Muslims, if it may be said that the reign of Umar bin Khattab ra was a golden age in Islamic history. In the economic aspect, an economic system developed based on justice and togetherness, the system is based on the principle of returning some of the wealth of the rich to be distributed to the poor. The things and achievements that have been successfully carried out during his leadership are:

a. Economic Policy The

strategy used is by handling the affairs of state assets, in addition to government affairs. He leads by using 3 principles, namely:

1) The Islamic State takes public wealth properly.
2) The state gives rights to public property and there is no expenditure except with its rights.
3) The state does not receive wealth from dirty results.

b. Elements of

1) Baitul maal
2) Land ownership
3) Zakat
4) Zakat from agriculture including fruits
5) Sadaqah for non-Muslim
6) Coins
7) Classification of state income
8) Expenses

During the Caliphate of 'Uthman Ibn 'Affan (23-35 H/644-656 AD)

No significant changes On the overall economic situation during his caliphate, Historically, at the beginning of his reign only continued and developed the policies that had been implemented by the caliph Umar bin Khatab ra but, when he encountered difficulties, he began to deviate from the policies that had been implemented by his predecessors which proved to be more fatal than him. and also for Islam.

Economic problems during the caliphate of Usman bin Affan ra were increasingly complicated, in line with the wider area of the Islamic State. The state's income from zakat, jizyah, and also spoils of war is getting bigger. In the first six years of his reign, Balkh, Kabul, Ghazni Kerman, and Sistan were conquered. To organize new data collection, Umar bin Khatab's policy was followed. Not long after, Islam recognized four trade contracts after these countries were conquered, then effective measures were implemented in the context of developing natural resources. things he did, including:

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a. Construction of irrigation
b. The formation of a police organization to maintain trade security.
c. The policy of dividing the vast land belonging to the king of Persia to individuals and the results have increased when compared to the time of Umar.
d. Construction of a court building, for law enforcement.

The Caliphate of 'Ali Ibn Talib (35-40 H/656-661 AD)

After becoming caliph, Ali bin Abi Talib put the baitul maal condition back in place in its previous position. Among other things: dismissing several officials appointed by Usman bin Affan ra, distributing land that was distributed by Usman to his family without a valid reason, providing allowances to Muslims in the form of allowances taken by the Baitul Maal, rearranging government administration to restore the interests of the people and moving the center of government to kuffah from Medina.

According to one narration, he voluntarily withdrew himself from the list of recipients of Baitul Maal funds, even according to another he gave 5,000 dirhams every year. When the war broke out between Ali bin Abi Talib and Muawiyah bin Abi Sufyan, people close to Ali asked him to take funds from the Baitul Maal as gifts from those who helped him. The goal was to defend Ali himself and the Muslims.

Caliph Ali had a clear concept of his government, general administration and matters related to it. This concept is explained in his letter addressed to Malik Ashter bin Harith. The letter, among others, describes the duties and responsibilities of the authorities, sets priorities in carrying out despensations in justice, control over high officials and staff, explains the merits and demerits of services, judges, legal servants, enumeration of administrative staff and procurement of treasurers. So, the Caliph Ali bin Abi Talib related to the policies he carried out during his six years of leadership:

a. The distribution of all income in Baitul Maal is different from Umar who set aside for reserves.
b. Naval spending is eliminated.
c. There is a policy of tightening the budget.
d. And the thing that is very monumental is the printing of its own currency in the name of the Islamic government, where previously the Islamic caliphate used the Roman dinar and the Persian dirham. Ali bin Abi Talib's reign ended with his assassination at the hands of Ibn Muljam from the Khawarij group.

Differences between Islamic Macroeconomics and Conventional Macroeconomics

In macro theory, we classify people or institutions that carry out economic activities into five major groups, namely: Households, Producers, Governments, Financial Institutions, Other Countries. The activities of these five groups of actors and their relation to the four markets above will explain the differences between Islamic macroeconomics and conventional macroeconomics (Muhammd Syahbudi, 2018):

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Table 1. Differences in Islamic and Conventional

Group	Macroeconomics Islamic Macroeconomics	Macroeconomics
Household	1. Consumption is bound by halal type of work sold 2. Obtain profit sharing (profit sharing) 3. Consumption is tied to the halalness of goods/services to be purchased 4. Income is also set aside for zakat, infaq and alms (ZIS)	1. Receives income from producers from the sale of their labor 2. Receives income from financial institutions in the form of Interest on their savings 3. Spend income in the market for goods/services 4. Set aside the rest of the income to be saved in financial institutions 5. Pay taxes to the government 6. Enter the money market as demanders because of the need for cash
Producers	1. Produce and sell goods/services must be in the form of goods/services that hello l 2. sharia-compliant financing (mudhorobah/muyarakah) and profit sharing system 3. paying taxes and paying company zakat	1. Produce and sell goods/services (ie as suppliers in the goods market) 2. Rent/use production factors owned by household groups to the production process 3. Determines the purchase of capital goods and stocks of other goods (as investors enter the goods market as a requester or demander) 4. Requesting credit from financial institutions to finance their investment (as a demander in the money market). 5. Paying
government	1. taxes Collecting direct and indirect taxes 2. Spending state revenues to buy government goods (as a demander in the goods market) 3. Loans are sharia-compliant financing and free of usury. 4. Hire labor (as a demander in the labor market) 5. Provide money (kartal) for the community (as a supplier in the money market)	1. Collect direct and indirect taxes 2. Spending state revenues to buy government goods (as a demander in the goods market) 3. Borrowing money from abroad. 4. Hiring manpower (as demanders in the labor market) 5. Providing money (kartal) for the community (as suppliers in the money market)
Financial Institutions	1. Imported goods are bound by halal status 2. Sharia financing and free of interest, interest or usury 3. Forex trading system (foreign exchange) must be in accordance with syaria'ah and free from usury and gharar)	4. Provide for the needs of imported goods 5. Buy export products (as a demander in the goods market) 6. Provide credit for the government and domestic private sector 7. Purchase from the goods market for the needs of the company's branches in Indonesia 8. As a liaison between the domestic money market and foreign money markets
Other Countries	1. Accepting deposits/deposits 2. Credit as sharia-compliant and interest-free financing	1. Accepting deposits/deposits 2. Providing credit and demand deposits as a sublayer in the money market

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Application of Islamic Macroeconomics

Economics macro is applied in various countries, two of which are Malaysia he and Indonesia. The application of macroeconomics is seen in research conducted by Rosylin Mohd. Yusof & M. Shabri Abd. Majid (2007), The study seeks to explore the extent to which macroeconomic variables affect the stock market behavior in the emerging market of Malaysia in the post 1997 financial crisis period, using the latest time series econometrics technique to test for cointegration, namely, the Autoregressive Distributed Lag (ARDL) model. The estimation of results suggest that the real effective exchange rate, money supply, industrial production index, and federal funds rate seem to be suitable targets for the government to focus on, in order to stabilize the stock market and to encourage more capital flows into the economy . Changes in US monetary policy as measured by the changes in the federal funds rate seem to also have a significant direct impact on the Malaysian stock market behavior during the period of analysis. This implies that any changes in the US monetary policy affect the Malaysian stock market.

On the other hand, M. Shabiri Abd Majid et al (2018) stated the application of macroeconomics in Indonesia in their research entitled "Macroeconomic Determinants of the Capital Market in Indonesia: A Comparative Analysis between Sukuk and Bonds Markets", and the study documented that the sukuk market is only affected and Granger-caused by the exchange rates, while the bond market is significantly affected by the interest rates, exchange rate and price level. The finding of independence of sukuk market from interest rates further. Then the implementation of macroeconomics with its role as inflation, monetary and fiscal control can be seen as follows:

1. Inflation Control from a Macroeconomic Perspective

Bank Indonesia and the Government are always committed to achieving the inflation target that has been set through policy coordination that is consistent with the inflation target. One of the efforts to control inflation towards low and stable inflation is to establish and direct people's inflation expectations so that they refer inflation target that has been set. Prior to Act Number 23 of 1999 concerning Bank Indonesia, the inflation target was set by Bank Indonesia. Meanwhile, after the law, in order to increase the credibility of Bank Indonesia, the government set an inflation target. Bank Indonesia's monetary policy is aimed at managing price pressures originating from the aggregate demand side (demand management) relative to supply side conditions. In this case, monetary policy is not intended to respond to rising inflation caused by temporary shock factors that will disappear by themselves over time.

According to Supriadi (2016), one of the causes of inflation is the growth in the quantity of money circulating in the community, if the government prints and/or circulates too much money, the value of the money will decline. In simple terms, inflation is defined as a tendency to increase the prices of goods and services in general and continuously. There are two keywords contained in the definition of inflation, namely the first general price increase and the second continuously. In inflation there must be an element of a general increase in prices (Suseno, 2009). In principle, inflation is a process of increasing prices in general and continuously related to market mechanisms which can be caused by various factors, including increased public consumption, excess liquidity in the market that triggers consumption or even speculation, and due to non-current distribution. goods (Astiyah, 2009).

An increase in the price of one or two goods alone cannot be called inflation unless the increase extends (or causes price increases) to other goods. The indicator that is often used to measure the inflation rate is the Consumer Price Index (CPI). Changes in the CPI from time to time indicate the price movements of the packages of goods and services consumed by the public. The determination of goods and services in the CPI basket is carried out on the basis of the Cost of Living Survey (SBH) conducted by the Central Statistics Agency (BPS). Then, BPS will monitor the price development of these goods and services on a monthly basis in several cities, traditional and modern markets for several types of goods or services in each city.

Talking about inflation, we have to look at the form of inflation itself, namely creeping inflation and inflation that is continuously sustainable and is considered serious if it crosses the 5% limit, as well as how the government handles this type of inflation. Zero inflation or inflation at zero percent is the hope and goal of the government in overcoming the national economic system, which is very difficult to achieve. To maintain national stability in the economic sector, the government needs to keep the inflation rate from exceeding 5%.

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One of the government's efforts to overcome this inflation problem is to carry out fiscal policy and monetary policy. Fiscal policy by reducing government spending is carried out by the Ministry of Finance, while monetary policy is carried out by Bank Indonesia.

2. Monetary and Fiscal Control in Macroeconomics The

implementation of fiscal policy and monetary policy carried out by these two different institutions should not conflict with one another, both of which must adjust the policies they make. One of the actions that must be taken by Bank Indonesia in overcoming this inflation problem is by reducing the money supply and raising interest rates, where this monetary policy will reduce investment and household spending. Meanwhile, the policy carried out by the Ministry of Finance is in the form of fiscal policy, namely by reducing spending and increasing individual and corporate taxes. These two steps can reduce government spending, reduce investment and reduce household spending (Sukirno, 2016).

As an effort to overcome inflation, one of the monetary policies taken by Bank Indonesia is to implement a reference interest rate or a new policy interest rate that replaces the BI Rate and is named the BI 7-Day (*reverse*) Repo Rate, which has been effective since 19 August 2016. This strengthening of the monetary operations framework is a common practice in various central banks and is an *best practice* in the implementation of monetary operations. The monetary operations framework is constantly being refined to strengthen policy effectiveness in an effort to achieve the inflation target set.

The BI 7-Day*Repo*Rate instrument can quickly affect the money market, banking and real sector, because the BI 7-Day Repo Rate instrument as a new reference has a stronger relationship to money market interest rates, is transactional or traded in market and encourage financial market deepening, particularly the use of repo instruments. In accordance with the principle of implementing reformulation, this change does not change the direction of monetary policy because both the BI Rate and the BI 7-Day Repo Rate policy interest rates are in the same interest rate structure (term structure) in directing inflation so that it is in line with the target. The difference is only seen in the tenor of the instrument, namely the BI Rate is equivalent to a 12-month monetary instrument, while the BI 7-Day Repo Rate is equivalent to a 7-day monetary instrument (BI, 2019).

There are at least three main impacts that are expected with the use of the BI 7-day (*reverse*) Repo Rate instrument as the new policy interest rate, namely (BI, 2019):

a. Strengthening monetary policy signals with the 7-day Repo Rate (Reverse) rate as the main reference in financial markets;
b. Increased effectiveness of monetary policy transmission through its influence on movements in money market interest rates and banking interest rates;
c. The formation of a deeper financial market, particularly transactions and the establishment of an interest rate structure on the interbank money market (PUAB) for a tenor of 3 months to 12 months.

Bank Indonesia's ability to control inflation is very limited if there are very large shocks such as when there was an increase in fuel prices in 2005 and 2008 that caused a spike in inflation. Taking into account that the inflation rate is also influenced by these shocking factors, the achievement of the inflation target requires cooperation and coordination between the government and BI through integrated macroeconomic policies from fiscal, monetary and sectoral policies. Furthermore, the characteristic of Indonesia's inflation which is quite vulnerable to*shocks*from the supply side requires special policies to address this issue.

One of the policies taken by the central bank or monetary authority to maintain macroeconomic stability is through monetary policy. Monetary policy is intended to ensure that liquidity in the economy is in the right amount so that trade transactions can be carried out without causing inflationary pressures. Several indicators commonly used in the economy to assess monetary policy include the money*supply*, inflation, interest rates, exchange rates and public expectations. Interest rates can affect investment in the industrial sector which will encourage production. While the exchange rate affects prices which include products and production inputs. Interest rates and exchange rates are monetary policy instruments that greatly affect trade in industrial products, both domestically and internationally. If what is being done is to increase the *money supply*, the government

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is said to be pursuing an expansionary monetary policy. Conversely, if *the money supply* is reduced, the government takes a contractionary monetary policy (Budiyanti, 2014).

In the monetary policy taken by the current government when viewed from the Islamic economic sector, there is not a single monetary policy instrument that has been used at the beginning of the Islamic period, because there is no banking system as it is now. Another instrument that is currently being used is to conduct open market operations, including through the sale and purchase of securities. Even this open market operation did not exist in the history of the Islamic economy at the beginning of its development. Meanwhile, the system that has been implemented by the government regarding consumption, savings, investment and trade has created an automatic instrument for the implementation of monetary policy (Karim, 2017).

In macroeconomic theory, fiscal policy is an economic policy in order to direct economic conditions for the better by changing state revenues and expenditures. An important instrument in fiscal policy is state revenues and expenditures. The government designs the right portion between revenues and expenditures to achieve economic stability. Among several choices of fiscal policy instruments that are commonly used by the government in maintaining macroeconomic stability are:

a. Increasing or decreasing household taxes;
b. Regulating government spending for certain entrepreneurs;
c. Provide fiscal stimulus (incentives or subsidies) to certain entrepreneurs.

In the direction of monetary policy, Bank Indonesia aims to achieve and maintain stability in the value of the rupiah. This objective is stated in Article 7 of Act Number 23 of 1999 concerning Bank Indonesia, which has been amended by Act Number 3 of 2004 and the last amendment through Law Number 6 of 2009. There are two dimensions regarding the stability of the value of the rupiah, namely: First, the stability of the value of the rupiah is the stability of the prices of goods and services, which is reflected in the development of the inflation rate. Meanwhile, the second dimension relates to the development of the rupiah exchange rate against other currencies. In the context of the development of the rupiah against currencies of other countries, Indonesia adheres to a *free floating*.

The role of exchange rate stability is very important in achieving price stability and the financial system. Therefore, Bank Indonesia also implements policies to maintain the stability of the exchange rate so that it is in line with its fundamental value while maintaining the operation of market mechanisms. In an effort to achieve this goal, since July 1, 2005 Bank Indonesia has implemented the *Inflation Targeting Framework* (ITF) monetary policy framework. The policy framework is considered in accordance with the mandate and institutional aspects mandated by the law. In this framework, inflation is an *overriding objective*. Bank Indonesia has consistently made various improvements to the monetary policy framework, in accordance with the changing dynamics and challenges of the economy, in order to strengthen its effectiveness (BI, 2019).

In the macroeconomic context, another important economic fundamental is the government's fiscal policy. According to (Saragih, 2016), fiscal policy is part of macroeconomic policy that aims to achieve various development targets in various sectors and has three main functions, namely:

a. The function of state budget allocation aims to finance development in various fields;
b. The function of distribution of income and subsidies which have the aim of improving people's welfare;
c. The macro-economic stabilization function aims to encourage economic growth, namely through efforts to reduce business cycles or economic fluctuations or those that are counter cyclical, that in a sluggish economic condition, government expenditures are autonomous, including spending on goods and/or services and Capital spending can provide a stimulus to the economy to grow high.

The operational target of monetary policy is reflected in the development of the Overnight Interbank Money Market (PUAB O/N) interest rate. It is hoped that this movement in interbank rates will be followed by developments in deposit rates and, in turn, bank lending rates. Taking into account factors in the economy, Bank Indonesia in general will raise the reference interest rate if future inflation is estimated to exceed the set target, on the other hand Bank Indonesia will lower the interest rate reference if future inflation is estimated to be below the predetermined target (Saridawati, 2015).).

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The implementation of monetary policy carried out by the monetary authority as the holder of money supply control to achieve monetary policy objectives is carried out by setting targets to be achieved and with what instruments these targets will be achieved. (Mahmud, 2009) explains that the main instruments of monetary policy include:

a. Open *Market Operation* Policy, this policy is a policy of buying or selling securities or bonds in the open market. If the central bank wants to increase the money supply, the central bank will buy bonds and if the central bank will reduce the money supply, the central bank will sell bonds.
b. Determination of *Reserve Requirements* The central bank generally determines the minimum ratio between cash (*reserves*) and demand deposits, which is commonly known as the minimum legal reserve ratio. If the central bank lowers that number with the same amount of cash, the bank can create more money than before.
c. Determination of Discount Interest Rates (*Discount Rate*), The central bank is a source of funds for commercial or commercial banks and as the last source of funds. Commercial banks can borrow from the central bank at interest rates slightly below the short-term lending rates prevailing in the free market. The discount rate that the central bank imposes on borrowers to commercial banks affects the commercial bank's profit rate and the willingness to borrow from the central bank. When the discount rate is low relative to the interest rate on loans, commercial banks will have a tendency to borrow from the central bank.
d. Moral Suasion, This policy is a central bank policy that is persuasive in the form of an appeal or moral persuasion to the bank.

3. The Impact of Inflation Control on the Economy

In Islamic economics, the monetary sector and the real sector must be in line and strictly monetary must follow developments in the real sector (Karim, 2020). The Islamic financial system in Indonesia has experienced very significant growth and development, this can be seen from the Islamic monetary instruments that have developed in line with the increase in performance and the level of public trust in Islamic banking. There was an increase in the amount of Third Party Funds (TPF) until the position of December 2018 which was Rp. Bank Indonesia Syariah (SBIS) to assist Islamic banking liquidity (OJK, 2019).

The character of Islamic finance shows a direct link between the monetary sector and the real sector. As in the Islamic endogenous theory, the development of the monetary sector is only a representation of changes in the real sector. Policies, both monetary and fiscal in Islamic economics, are always oriented to the allocation of resources to achieve full productivity and this paradigm also applies to the management of money demand (Karim, 2017).

With an increase in Islamic bank financing aimed at the real sector, it will affect the number of goods and services produced in the community. Fulfillment of domestic needs is likely to be met when people's productivity increases and the choice to export goods abroad will also increase. The increase in export numbers will increase the source of state income from the foreign exchange income generated and will be used to meet the needs of domestic capital goods. As Ibn Khaldun's income is that when a country carries out export activities, the domestic need for goods and services has been fulfilled.

When a country's production level for this type of commodity is higher than the country's domestic demand level or supply is greater than demand, it allows the country to export. Meanwhile, Adam Smith said that the goods to be exported must be goods that have an absolute advantage which is a specialty of the country and this can be done by specialization. The existence of a balanced harmony between the real sector and the monetary sector will affect the economy in the aggregate. Increasing Islamic bank financing to the real sector as well as increasing export activities will affect the balance of the economy which will ultimately affect economic growth (Astuti, 2013).

One of the responsibilities of the state according to Ibn Taimiyah related to monetary policy is to control the currency so that it is not used as a commodity. If the currency has been used as a commodity, it will cause monetary instability that allows a monetary crisis to occur (Janwari, 2016). According to (Mishkin, 2008), interest rate stability encourages financial market stability so that the ability of financial markets to channel funds from people who have productive investment opportunities can run smoothly and economic activities

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remain stable. According to (Karim, 2017) citing market theory from Ibn Khaldun, there is an interaction between supply and demand in a country's development. Supply will naturally form with demand, which in turn creates increased demand.

The next step is to try to show the cumulative development process caused by the intellectual infrastructure of a country. Ibn Khaldun's theory is the embryo of international trade with an analysis of the terms of exchange between rich countries and poor countries about the tendency to export and import, about the influence of economic structure on development and about the importance of intellectual capital in the growth process. According to Ibn Khaldun in (Yusup & Ghani, 2014) it is explained that the general market mechanism is as follows:

a. If in a demand curve there is an increase in the number of products (quantity), the price will automatically fall. On the other hand, if the quantity decreases, the price will increase;
b. If in a supply curve there is an increase in the number of products (quantity) then the price offered will also increase. On the other hand, if the quantity decreases, the price supplied will also decrease;
c. The price is formed because of the meeting point (equilibrium) between the demand and supply curves, meaning that if the demand or need for an item increases, the price will increase but on the condition that other factors remain or in the language of the economy ceteris paribus including fixed supply;
d. If the demand curve or the need for an item decreases, the price that occurs in the market will fall, but on condition that other factors remain or do not change, including fixed supply;
e. If the demand increases with an increase in supply of the same magnitude, then the deal price (market price) will not change.

According to (Rusydiana, 2009), the shift from *risk loans* to *safe bonds* can occur because it is caused by a very tight monetary policy, thereby reducing *aggregate demand* because investors or borrowers will reduce their investment. This is marked by the establishment of Bank Muamalat Indonesia as the first Islamic bank in Indonesia, where there are two banking systems operating side by side in Indonesia, namely banks operating using an*interest rate system*and banks operating using a sharia system (*freeinterest rate system*).

Since the sharia system has an SWBI (Bank Indonesia Wadiah Certificate) instrument, Indonesia has a *dual monetary system*, namely the interest rate and profit sharing mechanism. The profit-sharing system as a principle of calculation based on the income of the producer or borrower has a flexible nature of the return on the profit-sharing. With this system, the increase in the money supply will follow the increase in output that occurs. The existence of a profit-sharing system raises the possibility of shifting borrowers from the interest system to the profit-sharing system. The substitution mechanism creates a lack of monetary policy. Another possibility is, it can reduce the negative effect of reducing lending in the conventional sector. This reduction arose as a result of the sharia lending mechanism that created a balance between growth in the monetary sector and the real sector so that the increase in the proportion of sharia financing in the economy could reduce inflation.

CONCLUSION

The Islamic macroeconomic theory of economic growth, inflation, monetary and fiscal is not new, but has existed since the time of the Prophet Muhammad. Economic growth according to classical Islam aims for the advancement of the material and spiritual side, and humans as the earth's prosperity to get falah. Monetary policy is an important instrument of political policy in the economic system, both conventional and Islamic. The fundamental difference lies in the purpose and prohibition of interest in Islam. The condition for achieving and ensuring the proper functioning of the monetary system is that the monetary authority must supervise the entire system. Monetary policy and fiscal policy are macroeconomic policies that are very important in relation to achieving inflation targets and economic growth. Therefore, in an effort to overcome inflation, monetary and fiscal policies, the government can carry out various macroeconomic policies to achieve inflation targets and economic growth. Thus, it can be emphasized at the end of this section that the role of the government and the state is so important to take various economic policies in order to maintain economic stability in accordance with the challenges faced today and in the future.

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