

Economic Stability In Islamic View: Approach To Controlling Inflation

Windu Anggara^{1*}, Nabil Shawab², M. Shabri Abdul Majid³, Isnaini Harahap⁴

^{1,2,4} Universitas Islam Negeri Sumatera Utara Medan, Indonesia

³ Universitas Syiah Kuala Banda Aceh, Indonesia

*Corresponding Author:

Email: windu@uinsu.ac.id

Abstract.

Economic stability is the main goal in the Islamic view, in which economic concepts based on ethical values and social justice are prioritized. One of the problems faced in achieving economic stability is inflation which can cause imbalance and instability in the economy. Therefore, this paper discusses the approach put forward from an Islamic perspective to control inflation and achieve sustainable economic stability, through: 1) implementation of a sharia-based monetary system, which prohibits usury (interest) and excessive speculation, 2) currency management, 3) equity in income distribution, 4) encouraging investment in the productive sector and economic infrastructure, and 5) economic supervision and regulation. The narrative of this research is told in accordance with the requirements of the formulation being addressed. It is a descriptive qualitative study with a literature study technique. The findings of this study demonstrate that, from an Islamic perspective, attempts to maintain economic stability and manage inflation are not just commercial endeavors but also an essential component of worship for achieving social welfare and justice. By implementing these approaches, it is hoped that the economy in the Islamic view can achieve sustainable stability and provide long-term benefits for society as a whole.

Keywords: *Economic stability, inflation and Islamic Economy.*

I. INTRODUCTION

Economic stability is one of the main pillars in the view of Islam in achieving welfare and social justice for all members of society [1]. In the view of Islam, the economy is considered as a tool to achieve higher end goals, including creating general welfare and ensuring justice in the distribution of resources [2]. One of the critical challenges in achieving economic stability is controlling inflation. High inflation can cause a decline in people's purchasing power, price volatility, and disrupt the overall economic balance. Therefore, in the view of Islam, the right approach is needed to control inflation and achieve sustainable economic stability [3]. Economic stability is an important goal for every country, including Indonesia. Economic stability includes efforts to achieve healthy economic growth, control inflation, create jobs, and ensure a fair distribution of income for all people [4]. In the view of Islam, the economy is also oriented towards social justice and general welfare. One of the main challenges facing Indonesia is controlling inflation. High inflation can cause a decrease in people's purchasing power, price volatility, and affect overall economic welfare [5]. Since 2005, the inflation target in Indonesia has been around 3-5% per year. However, the actual inflation rate can fluctuate from year to year depending on various economic and non-economic factors. In Indonesia, the inflation rate for the last 5 (five) years has fluctuated quite a bit, this is of course due to various factors and economic stability policies. For example, in 2021 the average inflation rate can be reduced to 1.56% per year. However, until April 2023, year-on-year (y-on-y) inflation was 4.33 percent with a Consumer Price Index (CPI) of 114.74 [6]. The following is attached to the inflation rate data for the last 5 (five) years:

Table 1. Inflation Rate in Indonesia Period: 2019 to April 2023

Month	Annual Inflation Rate (in %)				
	2019	2020	2021	2022	2023
January	2.82	2.68	1.55	2,18	5,49
February	2.57	2.98	1.38	2.06	5,47
March	2.48	2.96	1.37	2.64	4.97
April	2.83	2.67	1.42	3,47	4,33

May	3,32	2,19	1.68	3.55	
June	3,28	1.96	1.33	4.35	
July	3,32	1.54	1.52	4.94	
August	3.49	1.32	1.59	4.69	
September	3.39	1.42	1.60	5.95	
October	3,13	1.44	1.66	5,71	
November	3.00	1.59	1.75	5,42	
December	2.72	1.68	1.87	5,51	
Average	3.03	2.04	1.56	4,21	5.07
Month	Annual Inflation Rate (in %)				

(Source: Bank Indonesia. (2023). Indonesian Inflation: Data and Information, www.bi.go.id)

Inclusively, the data above shows that inflation in Indonesia y-on-y occurred due to price increases as indicated by increases in most of the expenditure group indices, namely: the food, beverage and tobacco group by 4.58 percent; the clothing and footwear group by 1.80 percent; the housing, water, electricity and household fuel group by 2.53 percent; equipment, equipment and household routine maintenance group of 3.27 percent; the health group by 2.60 percent; transportation group by 11.96 percent; the recreation, sports and culture group by 2.38 percent; the education group by 2.75 percent; the group providing food and drink/restaurants by 3.79 percent; and the personal care and other services group of 4.67 percent. While the expenditure group that experienced a decrease in index, namely: the information, communication and financial services group by 0.25 percent. Inflation is an important issue in the context of the global economy, which is included in the Islamic perspective will have a direct impact on people's welfare and the economic stability of a country. . In the perspective of Islamic economics, inflation is also an important concern in maintaining economic stability and justice [7]. Therefore, it is important to explore approaches from an Islamic perspective that can help control inflation and achieve sustainable economic stability. which are included in the Islamic perspective will have a direct impact on the welfare of society and the economic stability of a country. In the perspective of Islamic economics, inflation is also an important concern in maintaining economic stability and justice [7]. Therefore, it is important to explore approaches from an Islamic perspective that can help control inflation and achieve sustainable economic stability. which are included in the Islamic perspective will have a direct impact on the welfare of society and the economic stability of a country. In the perspective of Islamic economics, inflation is also an important concern in maintaining economic stability and justice [7]. Therefore, it is important to explore approaches from an Islamic perspective that can help control inflation and achieve sustainable economic stability.

The proposed approach includes the implementation of Islamic economic principles which include the Islamic financial system, currency management, equity in income distribution, economic supervision and regulation, and encouraging investment in the productive sector and economic infrastructure [8]. As part of the review of research, the following presents several previous studies discussing inflation and Islamic economic stability, which of course will be reference material in the development of this research analysis:

First, Idris (2016), "Inflation in an Islamic Perspective" according to Muslim economists, inflation can cause disruption, impair people's desire to save, boost spending inclinations, and lead individuals to invest in unproductive areas, according to a survey of the literature that was conducted as part of this research. How to stop it by implementing government-run monetary, fiscal, and output policies and promoting moral conduct among citizens and authorities [9].

Second, Hassan, MK, & Bashir, AHM (2017), "Inflation and Economic Stability in Islamic Banking and Finance" shows that this research deals with the relationship between inflation and economic stability in the context of Islamic banking and finance. This research has investigated how inflation affects economic stability, especially in financial institutions that operate based on Islamic economic principles. This kind of research involves analyzing data and economic research methods, as well as applying Islamic economic theory and principles. The results of this study can provide insight into how inflation can affect economic stability in an Islamic financial environment [10].

Third, Fadilla (2017), "Comparison of Inflation Theory in Islamic and Conventional Perspectives" in order to complete the research, researchers used a literature study approach. Based on the findings, it can

be concluded that Islamic economics aims to replace the impact of inflation, advises converting paper money (fulus) back into gold and silver, and forbids excessive imports in order to protect domestic producers. Implementing monetary, fiscal, and non-monetary policies is one of the mainstream economics' suggested remedies. [11].

Fourth, Reni Mulyani (2020), "Inflation and How to Overcome It in Islam", the method utilized in this study is a descriptive-analytic qualitative literature analysis. According to Al-Maqrizi Taqyudin (1996: 412), in Islamic economics, inflation is caused by natural (natural) inflation and human error inflation (by humans). In general, inflation is caused by the large number of public demands for goods, increases in production costs, and the high circulation of money in society. According to conventional wisdom, controlling inflation requires the implementation of monetary policy, fiscal policy, and non-pandemic interventions. While in Islam a low/minimum amount of money is printed, an unemployment contribution mechanism is put into place, and fiscal policy is implemented to combat inflation [12].

Fifth, Nirmadar (2022), "Interest-free Islamic Monetary Policy Literature Study" by examining earlier studies from journals in different nations, researchers utilize a qualitative descriptive strategy. The claim that interest-free monetary policy can cause inflation has a favorable effect on the economy, and the central bank's role includes ensuring not only price stability but also prosperity for all citizens and employing Islamic economy contracts already in place when conducting its business. [13].

Previous research is equally significant to the study you want to perform, so using it as a reference for starting or finishing the research you want to undertake is a good idea. As a result, the researcher in this article performs a more thorough investigation of Islamic perspectives on how to combine ethical values in order to manage inflation and ensure long-term economic stability.

II. METHODS

The method used in this research is descriptive research analysis with literature study. In addition, the secondary data used are books with discussions from published journals. Researchers collect relevant books and journals, classify them, and narrate them to produce outputs that can provide answers to the formulation of the problem or problem.

III. RESULTS AND DISCUSSION

Inflation can be defined as an all-encompassing rise in prices that continues over time. However, if a price increase only affects two or three items, it is not considered inflation unless it also drives up the cost of other items. Inflation serves as a country's economic meeting's opening statement; it can only be reduced, not eradicated. According to Hamilton (2001), inflation is a scenario in which the money supply grows "faster" than the rate at which commodities and services are produced in the same economy. The consumer price index, wholesale price index, producer price index, and other price indices are used to calculate the inflation rate as a percentage change. According to Essien (2005), the consumer price index (CPI), which is derived from regular surveys of consumer prices, assesses the cost of a representative basket of products and services bought by the average consumer. The Consumer Price Index (CPI) is the statistic that is frequently used to calculate inflation rates. The consumer price index, as is common knowledge, is an index that determines the typical change in price of products and services used by a household over a specific time period. In this instance, the consumer price index might be categorized as a basic requirement that the community will undoubtedly use every day. Typically, the cost of a selection of household-related commodities, including food, clothing, shelter, and undoubtedly a great number more, is used to compute the Consumer Price Index. The Consumer Price Index (CPI) is the statistic that is frequently used to calculate inflation rates. The consumer price index, as is common knowledge, is an index that determines the typical change in price of products and services used by a household over a specific time period. In this instance, it is possible to classify the consumer price index as a daily requirement that the society will undoubtedly use. Typically, a collection of household commodities such as food, clothing, shelter, and obviously a great number more are used to create the Consumer Price Index. The Consumer Price Index (CPI) is a common indicator used to calculate inflation rates.

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Because dinars and dirhams are utilized as a means of exchange and have inherent worth that will not drastically decrease, Islamic economics does not use the term inflation. According to Riani's research, neither the Koran nor the hadith make any mention to cycloscript. As a result of people's drive to consume excessively, inflation is a problem that currently exists. As a result, Allah SWT has declared in Qs. Ali-Imran (3) verse 14: "Therefore, before the advent of inflation or the appearance of the word inflation, Allah SWT has said:

Translate : It is made beautiful in (the view of) humans, the love of what they desire, namely: women, children, lots of treasures in the form of gold, silver, selected horses, livestock and fields. That is the pleasure of living in this world, and with Allah is a good place to return (heaven).

The hadith from the history of Bukhari Muslim supports the aforementioned verse by stating that "it is very unfortunate for people who are enslaved by assets (capital), whether in the form of gold coins (dinars), silver coins (dirhams), or other similar things."

Allah SWT has warned people to be cautious with their assets, including gold and silver, in the verses and hadith mentioned above. Because having money in huge numbers can allow people to utilize practices that are against Islamic law, and this will undoubtedly have an effect on a nation where people will want to benefit themselves through corruption. When determining the variables that contribute to inflation in a nation, corruption is also a key indicator. Al-Maqrizi distinguishes between two types of inflation: one caused by diminished resources and the other by human error. Due to prolonged droughts and armed conflict, there was inflation during the period of the Prophet. Human error can lead to three different types of inflation: corruption, poor administration, high taxes and printing a lot of money too. Islamic economists contend that inflation can worsen a nation's economy in the following ways:

1. causing a disruption in the operation of money, particularly the operation of deposits (deposit value), down payments (down payment function), and units of account. Self-feeding inflation is another effect of inflation.
2. making people hesitate to save.
3. promoting the act of shopping, particularly for tertiary and non-basic requirements items.

4. focusing investment in non-productive areas, such as land, buildings, precious metals, and foreign currency hoarding, at the price of spending money in areas that are more productive, like agriculture, industry, trade, and transportation.

In Islamic economics, the practice of taxing unemployed funds or making payments to idle funds is also utilized to lower the inflation rate. The obligatory minimum reserve requirement at Bank Indonesia, the amount of which is fixed at a particular percentage of third party funds, is where Bank Indonesia's sharia monetary policy is implemented. The third-party funds come in the form of bank certificates from Indonesia, wadiah demand deposits, mudharabah savings deposits, mudharabah investment deposits, and certificates of mudharabah investments between sharia banks.

There are a number of techniques to lower the inflation rate, including the following, according to some Islamic economists:

1. In his book *The Financial System in the Caliphate*, Abdul Qodim Zallum asserts that "a monetary system based on gold and silver is the only monetary system that is capable of dealing with the massive inflation that has hit the entire world, is able to realize exchange rate stability, and can encourage progress in international trade." [15].
2. Forbidding imports while home output is still adequate.

During the rule of the caliph Umar bin Khattab ra, this took place. At that time, trade caravans—caravans of merchants who exported their goods—bought from abroad for less money than they exported (positive net exports). Positive net exports will result in earnings that will be brought into Medina as excess cash, increasing people's income and purchasing power. The aggregate price level (AD) or, as seen on the graph, AD shifting to the right, will rise in response to an increase in aggregate (AD) [16]. What action did Umar bin Khattab ra take to address the issue? He made it illegal for Medinans to purchase anything for two straight days. Aggregate demand (AD) therefore declines in the economy. The ban was lifted, and the price level then went back to normal [17].

From these conditions, a lesson can be drawn in controlling inflation which requires strategic action in carrying out economic stability which includes efforts to achieve balance and resilience in an economic system based on Islamic principles. The main challenge in achieving economic stability is controlling high inflation which can lead to various economic and social problems, such as a decrease in people's purchasing power, price volatility and business uncertainty. Therefore, an approach is needed that can be a solution to controlling inflation in the view of Islamic economics, as follows:

1. **Implementation of a Sharia-Based Monetary System:** Implementation of a monetary system that complies with Islamic economic principles, including the prohibition of usury (interest) and excessive speculation, can help avoid triggering inflation stemming from economic practices that are inconsistent with Islamic ethics.

2. **Currency Management:** From an Islamic point of view, maintaining the stability of currency values is important. The government and monetary authorities must take careful steps to control money growth and maintain a balance between money supply and demand so that inflation remains under control.

3. **Equity in Income Distribution:** The principle of fairness in income distribution, including zakat and infaq, is an integral part of Islamic economics. By applying this principle, economic inequality can be reduced, thereby reducing inflationary pressures.

4. **Investment in the Productive Sector:** Encouraging investment in the productive sector and economic infrastructure can increase production capacity, so that people's needs can be met at more stable prices.

5. **Economic Supervision and Regulation:** Strict supervision of the financial and business sector is recommended in Islam to prevent monopolistic practices, fraud and exploitation which can lead to price volatility and inflation.

This approach underscores the importance of prioritizing social justice and people's welfare in achieving economic stability and controlling inflation from an Islamic point of view. By implementing this approach, it is hoped that the economy can develop sustainably and provide long-term benefits for society as a whole. Economic stability based on Islamic values is expected to create a just, just and prosperous society.

IV. CONCLUSION

Although the concept of inflation is not new or unfamiliar to the general public, every nation must have a discussion about it in order to control the current rate of inflation. A nation's inflation cannot be completely eradicated; it can only be reduced. There are several approaches that in the view of Islam are capable of controlling inflation and achieving sustainable economic stability, through: 1) implementing a sharia-based monetary system, which prohibits the practice of usury (interest) and excessive speculation, 2) currency management, 3) equity in income distribution, 4) encouraging investment in productive sectors and economic infrastructure, and 5) economic supervision and regulation. In this context, the Islamic economic approach places social justice and community welfare as the main principles for achieving economic stability and controlling inflation. By implementing this approach, it is hoped that the economy can develop sustainably while still paying attention to the welfare of all members of society. Economic stability based on Islamic values is expected to provide long-term benefits for the economy and society as a whole.

V. ACKNOWLEDGMENTS

Overall, the Islamic view provides an approach based on ethics and sharia principles to achieve economic stability that is sustainable and equitable in the distribution of wealth. Inflation control is an important part of achieving overall economic stability, and an approach that reflects Islamic values can help achieve this goal in a fair and sustainable manner.

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