



Inflation and the Stability of Islamic Finance

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Abstract

Inflation usually refers to consumer prices, but you can also use the prices of the other (the price of a big trade, wages, prices, assets, and so on). According to the authors of inflation is the rise in prices of goods and services that occurs continuously affecting individuals, employers and the government, therefore, inflation becomes a problem that must be resolved quickly due to the occurrence of inflation shows the phenomenon of monetary growth that is not stable. Al-Maqrizi states that the appointment of the officers of government is based on bribery, and not the capability, will be placed the people who have no credibility on various important positions and respectable, both among the legislative, judicial, and executive. They are willing to pawn all his possessions as compensation to achieve the post of desired as well as the needs of day-to-day as an officer. As a result, administration officials no longer free from the intervention and the machinations of the cronies of the palace. They not only may be removed at any time but instead seized his wealth, even executed. This condition is, furthermore greatly affects the morale and efficiency of the civil administration and the military. When in power, officials began to abuse the power to achieve personal interests, good to meet its financial obligations or for the luxuries of life. As a result, there is a decrease drastically the number of population and labor as well as the results of production has implications for declining tax revenues and income of the state

Key words: inflation, stability of Islamic finance

Introduction

Inflation is a rise in the general price prevailing in an economy from one period to the other. Inflation is a situation where there is excess demand (*excess demand*) for goods and services as a whole. Meanwhile, according to [1], inflation is a process of rising prices, which apply in general in an economy. Meanwhile [2] stated that inflation is an increase in the whole of the price level. Almost all of the country, keeping inflation to remain low and stable is the task of the central bank. The rate of inflation low and stable, will create economic growth that is expected, the expansion of employment, and the availability of goods and services to meet the needs of the community. [3]

Inflation is the most influential on the investment in a country. Inflation is a symptom of the rise in the prices of goods that is common and continuous. From this definition there are three terms to be said has happened to inflation. *First*, an increase in price. *Second*, the increase is happening to the prices of goods in general. *Third*, the increase lasted long enough [4]–[6]. Thus the rise in prices that occur in only one type of goods, or the increase that occurred

only while the time can not be called with inflation. View the monetarists consider inflation as a result of the amount of money supply too much, so that the purchasing power of money (*purchasing power of money*) decreased. As a result the price of goods to rise. Meanwhile, according to the structuralist, inflation is a symptom of the economy caused by structural problems such as the problem of crop failure, which causes the price of goods increased.[7]–[9]

According to Ebert and Griffin, inflation is a condition in which the number of goods less than the number of requests that will result in the occurrence of widespread price increases in the economic system as a whole.[10]–[12]

Meanwhile, according to Sadono Sukirno inflation is a rise in the price of goods and services, which occurs due to the demand increase is large compared to the supply of goods in the market. In other words, too much money chasing down items too little. Types of goods are classified for the calculation of inflation, which is the price of food, housing groups, and groups clothes.[13]

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Research Method

This study uses a qualitative approach through the analysis of the literature. As for the nature of this research is descriptive, which outlines the regular data that has been obtained, then given the understanding and explanations that can be understood by the reader. The Data used in this research is secondary data. Secondary Data is data obtained not from direct observation. Secondary data sources referred to in the form of books, journals and other relevant sources. Data analysis, the content is reduced from a variety of data sources.

Results and Discussion

Inflation

Inflation in the Islamic view

Inflation occurs because the prices in general increased and ongoing. At this time, the inventory of the goods and services of experienced scarcity and consumers, because of the need they (consumers) have to spend more money for a number of the same goods and services.

Al-Maqrizi reveal that the true inflation does not occur because of natural factors (Natural Inflation) , but because of the human error factor (*Human Error Inflation*). As the name implies, the inflation of this type due to various natural factors that can not be avoided mankind. According to Al-Maqrizi when a natural disaster occurs, a variety of food and other crops has decreased drastically and scarcity. On the other hand, due to its very significant in the life, the demand for various goods that have increased. Prices soar far beyond the purchasing power of the community. Al-Maqrizi said that inflation is inflation caused by the fall in the supply of Aggregative or rising demand Aggregations.

Human Error Inflation, in Addition because of the nature of inflation caused by the mistakes made by humans. Inflation is known by the term human error inflation or False Inflation. It is also found in Al-qur'an surat Ar-Rum: 41

ظهر الفساد في البر والبحر بما كسبت أيدي الناس ليذيقهم بعض الذي عملوا لعلهم يرجعون

Has looked the damage on land and in the sea due to the deeds of human hands; God wants them to feel part of the (consequences of) their deeds, that they return (to the path).

According to Al-Maqrizi inflation occurs due to human error, among others, corruption and the administration of the poor, excessive taxes and an increase in the circulation of currency money money.

Corruption and the Administration of the Poor. Al-Maqrizi states that the appointment of the officers of government is based on bribery, and not the capability, will be placed the people who have no credibility on various important positions and respectable, both among the legislative, judicial, and executive. They are willing to pawn all his possessions as compensation to achieve the post of desired as well as the needs of day-to-day as an officer. As a result, administration officials no longer free from the intervention and the machinations of the cronies of the palace. They not only may be removed at any time but instead seized his wealth, even executed.

This condition is, furthermore greatly affects the morale and efficiency of the civil administration and the military. When in power, officials began to abuse the power to achieve personal interests, good to meet its financial obligations or for the luxuries of life. They're trying to gather as much treasure as possible to justify all the way. Rampant injustice of these officials has made the condition of the people is increasingly concerning, so they were forced to

leave the hometown and the job. As a result, there is a decrease drastically the number of population and labor as well as the results of production has implications for declining tax revenues and income of the state.

Excessive taxes. According to Al-Maqrizi, due to the dominance of officials mentality corrupt a government, the expenditures of the state have increased yangn very drastic. As compensation, they implemented a system of taxation that oppress the people by imposing a variety of new tax and raise the tax rates that are already there. This greatly affects the condition of the farmers who is kelomok the majority in society. The owner of the land who want to always be in the pleasure will bestow the tax burden to the farmers through increased cost of the rent of land. Because it is interested with the results of the tax which is very promising, the pressure of the officials and the owner of the land to the farmers become more large and intensive. The frequency range of tax for the maintenance of the dam and work similar increase.

Consequently, the costs for the cultivation of the soil, sowing seeds, harvesting crops, and so increased. In other words, the rice harvest that is produced in these conditions requires a greater cost to exceed the reach of the farmers. The increase in these prices, especially rice seed, it is almost impossible decreased because most of the rice seed which is owned by the officials are very thirsty wealth. As a result the farmers lose the motivation to work and produce. They prefer to leave a place to live and work than on always live in misery for then became a wanderer in the regions of the interior. Thus, the decline in employment and an increase in land that will greatly affect the yield rate of rice production as well as the results of other earth and eventually lead to scarcity of food ingredients as well as increase the prices.

The increase in Currency circulation of Money In the beginning money is money that has value instrintik much smaller compared to their nominal value printed as a tool of the transaction to meet the needs of daily life are not significant. Therefore, the amount of this currency is only a little that there is in circulation. When it happens to the budget deficit as a result of the bad behavior of officials who spend state money for a variety of personal interests and his group, the government money printing money on a large scale.

According to Al-Maqrizi, the activity was more widespread at a time when the government's ambition to obtain a great advantage of printing currency that does not require high production costs that are not controllable. As a ruler, they issued an edict which forced people to use that currency. The amount of money owned by the community is getting bigger and circulation has increased very sharply, so money was the currency of the dominant.

Further, Al-Maqrizi suggested that the government policy that has implications for the existence of other currencies. Along with the huge profits obtained from the printing of money, the government stopped printing silver as a currency. In fact, as one of the implications of the lifestyle of the acting, a number of dirhams owned by the community merged into jewelry. As a result, the currency dirham experiencing scarcity and disappear from circulation. Meanwhile, the currency is the dinar is still there diperedaran although it is only owned by a handful of people.

The state of this place filthy lucre as the standard value for most goods and services. The policy of printing money on a large scale, according to AlMaqrizi, greatly affect the decrease in the value of the currency drastically. As a result, money is no longer worth and the prices soar, which in turn lead to scarcity of food ingredients.

According to the Islamic economy, inflation be very bad for the economy because of a few things:

- a) Interfere with the function of money, especially against the savings function, the function of the payment upfront and the function of the unit of calculation. A result of the inflation that people have to detach yourself from money and financial assets.
- b) Weaken the spirit of the community to save
- c) Increase the tendency of shopping, especially for non-premier and luxury
- d) Direct investment to the things that are not productive as the accumulation of wealth in the form of land, buildings, precious metals, and foreign currency as well as the expense of productive investment such as agriculture, industry, trade, and transport.

Causes Of Inflation

In the theory of macro issues of macro-economic always facing a country is a matter of economic growth, the problem of the instability of the economic activity, the problem of unemployment, the problem of rising prices (inflation), and the period is the balance of trade. The issue of the country's economy? -mian which has always been an important concern of the government of the countries in the world, especially developing countries, namely Indonesia is inflation. Inflation is a rise in general prices prevailing in an economy from one period to the other. Inflation is one of the indicators of the stability of the economy. If the rate of inflation low and stable will be a stimulator of economic growth. Every time there is a social upheavals, political and economic conditions within and outside the country people always associate with the problem of inflation.

The class of non-monetarists, namely the keynesian not deny the opinion of the view of the monetarists but add to it that without the expansion of the money supply, excess aggregate demand can only occur if there is an increase

in consumption spending, investment, expenditure t-r or net exports. With demi-kian, inflation can be caused by factors such as monetary and non-monetary.

The level of interest rates is one of the factors to be considered can affect inflation. The interest rate is the cost to be paid by the borrower for the loan received and is a reward for the lender on investment. Increase in the level of interest rates are very high, on the one hand will be effective to reduce the *money supply*, but on the other hand will increase the interest rates of credit to the real sector. Therefore, the level of interest rates can trigger inflation.

Inflation in Indonesia are also affected by the rise in the price of commodity imports (*imported inflation*) and ballooning foreign debt a result of the depreciation of the rupiah against the us dollar and other foreign currencies. As a result, to mengentl inflation pressure, then the first must be done stabilizing the value of the rupiah against foreign currencies, especially American dollars. The instability of exchange rates will affect the flow of capital or investment and trade internationally. Indonesia as a country that imports a lot of raw material industry is experiencing the impact and the instability of the exchange rate, which can be seen from the soaring cost of production, causing prices of goods belonging to Indonesia increased.

With the weakening of the rupiah caused Indonesia's economy is on shaky ground and hit by the economic crisis and confidence in the domestic currency. With the presence of spike-spike drastically at the level of the exchange rate that will make the producers of the difficulty to obtain raw materials, capital goods and capital goods that have kandungan import is high and so then will have an impact on rising costs to import goods for the purposes of the production process so that it will not affect the domestic price level, which is a reflection of the level of inflation. Therefore, the value of the exchange rate (*exchange rate*) is also one of the factors that can affect inflation in Indonesia. Other factors that can influence the inflation that export. Export is determined by several factors that will determine the ability of the exporting country. According to Sukirno some of these factors, among others, is competitiveness in overseas markets, the state of the economy in other countries, the policy of protection in foreign countries, and foreign exchange rates.

The Stability Of Islamic Finance

The financial system plays an important role in driving the economy. The influence of the financial system is very vital and region coverage is comprehensive ranging from the level of savings, investment, technology innovation, to the long-term economic growth, then the stability of the financial system must be maintained in order to increase economic growth. The stability of the financial system can be achieved one by the establishment of various types of financial institutions. The financial institution is a company that any of its activities related to the field of finance, whether it be raising funds with different types of schemes and channel them back with various types of other schemes.[15], [16]

Financial System stability is a condition that allows the national financial system to function effectively and efficiently and be able to survive against shocks internal and external. Vulnerability (*vulnerability*) of the financial system refers to a condition of imbalance in the financial system (*financial imbalances*) that occurs because of the behavior of risk-taking (*risk-taking behaviour*) of the agents of the economy in maximizing profits or consumption.

The stability of the Financial System (SSK) or referred to the Financial Stability is spared from the crisis of the monetary or financial (avoidance of financial crisis). Financial system stability is a condition where the economic mechanism in the determination of prices, allocation of funds and risk management function in a better manner as well as supporting economic growth. Researchers Executive Directorate of Banking Research and regulation, Bank Indonesia, Lull said that financial stability can be seen from two things, namely the stable institutions that can be seen from the absence of a bank or financial institution collapse and stake his credibility by the public, the second is a stable market.

Therefore, the importance of the SSK has a direct influence on the stability of the macro in an economic system and vice versa. At a time when the stability of the macro-turbulent then the stability of the financial'll get the impact. Macro-economic conditions such as stabilizing the purchasing power of the community, strong domestic demand, as well as the stability of the rupiah exchange rate can bring a positive influence to the stability of the financial system.

According to the Adha (2011), there are several reasons for the importance of SSK in the economic system, including:

- a) The stability of the financial system will form a healthy market, controlled and allocation of various resources can be conditioned optimally.
- b) The stability of the financial system have a direct impact to the health of the banking world, with a stable financial system the banking world can perform its function as a collector and distributor of public funds to the maximum, of course this will also affect the real sector
- c) With the stability of the financial system will affect the rotation of the amount of money circulating in the community because the financial system is running well, so inflasipun can be controlled.
- d) The cost of the instability of the financial system can be suppressed because of the influence of the instability of the attack directly the financial sector, which has a restructuring costs that are not cheap, as the banking sector.

- e) Instability of the financial system has a considerable influence on the occurrence of the financial crisis, so it required the maximum effort in maintaining the stability of the financial system.

Basically the financial system of a country is strongly influenced by the economic system adopted. An economic system refers to the unity of the mechanisms and decision-making institutions that implement such decisions on production, consumption and income distribution. Therefore, the economic system is something that is important for the economy of a country. The economic system is formed due to various complex factors, for example the ideology and belief system, way of life, environment, geography, political, social, cultural, and others.

Islamic financial system aims to provide financial services halal to the muslim community, in addition, it is also expected to give a worthy contribution to the achievement of the goals of socio-economic development of Islam. The main Target is the well-being of the economy, the expansion of employment opportunities, high rates of economic growth, justice, socio-economic and income distribution, wealth reasonable, the stability of the value of money, and the mobilization and investment of savings for economic development that is able to give the best advantage (for the results) to all parties involved.

The Islamic financial system is expected to be the best alternative in achieving the welfare of the community. The removal of the principle of interest in the Islamic financial system has the impact of a macro that is quite significant, because not only the principle of direct investment that should be free of interest, but the principle of investing indirectly should also be free of interest. Banking as a major financial institution in the financial system today does not only play a role as a financial intermediary (*financial intermediary*), but also as a provider industry financial services (*financial industry*) and the instruments of monetary policy the main. In the Islamic economic system, stability can be terrcapai with practice the instrumental area that affect the economic behavior of a muslim himself, citing Muh. Arafa in the journal explained that:

First,The Zakat. Zakat is one of the pillars of Islam is a religious duty which is charged on the assets of a person according to certain rules in the islamic economic system. Zakat is a source of state revenue. In addition to the tax, al-fay, ghanîmah and should be distributed to those who deserve it.

Second, the Prohibition of riba. Literally, the meaning of riba is the increase or inflate. Meanwhile, according to the terms, riba is additional in the payment of debts as a reward period of time used during the debt has not been paid.

Third,the economic Cooperation. Cooperation is the nature of the economic community according to the teachings of Islam. Cooperation should be reflected in all levels of economic activity, production, distribution of both goods and services. Forms of cooperation such as in the form of muzâra'ah and musâqah in the field of agriculture, mudaraba and office in the trade. Cooperation principle is upheld by the teachings of Islam because of the cooperation will be able to:

- a) Create a productive work in people's lives everyday.
- b) Improve the well-being and prevent the misery of the community.
- c) Prevent the oppression of the economy and the distribution of wealth is not evenly distributed.
- d) Protect the interests of the economically weak.

Fourth, social security. In al-Quran encountered the teachings of which guarantee the level and quality of life the minimum for the whole community.

Fifth,the Prohibition against the practice of dirty business. There are some business practices that are prohibited in Islam such as the prohibition against the practice of hoarding, takhffif (cheat in scales), are not honest, do not appreciate the achievements, protectionism, monopoly, speculation, coercion and deodorized. It is forbidden because if tolerated will be able to undermine the market so that the naturalness of the market be broken and disturbed.

Sixth, The Role Of The State. For the establishment of the goals and values of the islamic economic system above the required power or the role of the state, especially in the aspect of law, planning and supervision of the allocation or distribution of resources and funds, equitable distribution of income and wealth as well as the growth and economic stability

Conclusion

Al-Maqrizi reveal that the true inflation does not occur because of natural factors (*Natural Inflation*), but because of the human error factor (*Human Error Inflation*). According to Al-Maqrizi inflation occurs due to human error, among others, corruption and the administration of the poor, excessive taxes and increase the circulation of currency money money. In the Islamic economic system, stability can be achieved with practice the instrumental area that affect the economic behavior of a muslim through his own charity, the prohibition of riba, economic cooperation, social security, the prohibition against the practice of dirty business, the role of the state.

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