

Money Market Mechanism Based On Sharia Principles

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Abstract

The rapid development of economic activity followed by the development of financial institutions (banks) both conventional and using Islamic principles, in the banking world often use money market facilities in its operations, because in certain circumstances the bank may experience excess or lack of liquidity in the short term which is less than one year. The only money market that is allowed is the money market that does not use the interest system, this is to avoid riba nasi'ah because the loss (danger) of the interest is greater than the profit (mashlahah). In addition, because Islam prohibits the sale and purchase of money as a commodity or speculation. The National Sharia council should develop the concept of policies and procedures for money market activities in more detail, so that the parties to the transaction can comply with the principles of established Sharia norms. However, the fatwa of the National Sharia Council No:37/DSN-MUI/X/2002 can be used as a solution for parties (banks) that conduct transactions in the money market by providing alternative contracts mudharabah (muqaradhah), Musharakah, Qard, Wadiah, and al-Sharf.

Keywords: Money Market, Conventional, Sharia Principles

INTRODUCTION

Islam is a religion of rahmatan lil alamin, a religion that brings mercy to the universe and all people without being limited by space or time. In the teachings of Islam covers all aspects of life including economic aspects. Seeing the economic development in modern times, economic transactions are increasingly complex, which of course not a few muslim communities are involved in it, either directly or indirectly. In this regard, it is necessary to thoroughly study and socialize specifically about the law of the money market in the perspective of Economics and Islamic law (muamalah) so that Muslims get clear and firm legal certainty.

The reason why the money market is needed in the economic system is because many companies and individuals experience cash flows that do not match between inflows and outflows. To solve the problem, the services of a financial institution or bank that can be fair are needed. But in reality the bank's application is not fair by taking profits or excessive interest to parties who lack funds or vice versa.

The rapid development of economic activity followed by the development of financial institutions (banks) both conventional and using Islamic principles, in the banking world often use money market facilities in its operations, because in certain circumstances the bank may experience excess or lack of liquidity in the short term, which is less than one year. Therefore DSN issued a fatwa No.37 of 2002 on the interbank money market by using Sharia principles as a solution for both.

RESEARCH METHODS

The research method is literature review or literature study, which contains theories relevant to research problems. In this section, the concepts and theories used is carried out based on the available literature, especially from articles published in various scientific journals. Literature review serves to build concepts or theories that form the basis of studies in research. Literature review or literature study is an activity that is required in research, especially academic research whose main purpose is to develop theoretical aspects as well as aspects of practical benefits.

RESULTS AND DISCUSSION

Understanding The Money Market

The money market can be interpreted as follows :

- a. The money market is a market where short-term securities are traded
- b. The money market is a lending and borrowing or buying and selling transaction using commonly traded securities with a transaction period of less than one year, both on the basis of domestic and foreign currencies
- c. The money market provides for short-term purchases made on the basis of loans.
- d. The money market is also defined as a market that brings together those who offer funds and those who need funds.

The money market (money market) is a mechanism for trading short-term funds, that is, funds with a term of less than one year. Activities in this market occur because there are two parties-the First party is a short-term shortage of funds, the second party has an excess of funds in the short term as well, they are brought together in the money market, so that the deficient units obtain the funds needed, while the excess units obtain income from the excess money

Understanding the money market in economic theory is not a (physical) place where people sell and peddle their merchandise. The market is defined more broadly and abstractly but still includes the market in the everyday sense of the meeting between demand and supply when demand meets supply in the market then there will be a transaction. A transaction is an agreement between what the buyer wants and what the seller wants. in a transaction like this both parties reach an agreement on two things, namely the price and the volume of what is being transacted.

In the case of the money market being transacted is the right to use the money within a certain period of time. So in the market there is a transaction of borrowing and borrowing funds which subsequently lead to accounts payable. The goods transacted in this market is a piece of paper in the form of debt securities or a promise to pay a certain amount of money at a certain time. It is necessary for the services of financial institutions (banks) that can be fair. But sometimes the bank in its application does not do justice by taking excessive profits or interest to parties who lack funds or vice versa

Money market (money market) in Indonesia is still relatively new compared to developed countries. However, with the development of the money market in Indonesia also developed although not as vibrant as the development of the capital market Money market (money market) is a market with short-term financial instruments generally traded high quality. The term of a money market instrument usually matures within a year or less. Transactions in the money market are usually carried out through telecommunication means. Thus the money

market is often referred to as the abstract market because the implementation of transactions is not carried out in a certain place as is the case with the stock exchange there is a capital market

Islamic Money Market Concept

The money market is a group of markets that trade short-term credit instruments, which are generally of high quality. The money market functions as an alternative means for financial institutions, non-financial companies to meet short-term needs or to place funds on their excess liquidity.

Sharia money market is a Sharia money market (PUAS or money market for Islamic banks) that sells and buys Sharia securities with a short period of time (less than one year). Islamic money market is a market traded securities issued in connection with the borrowing of money in the short term (one year or less than one year). To mobilize short-term funding sources and manage liquidity efficiently can provide benefits and in accordance with Sharia.

The goods transacted in this market is a piece of paper in the form of debt securities or a promise to pay a certain amount of money at a certain time. Securities traded in the money market vary, can be securities with futures of less than one year to securities with futures of five years, but in fact most of the financial assets traded in the money market are securities with futures of less than one year.

Money market participants are banks or financial institutions that require short-term funds and usually the purchase of money market securities is only based on trust alone, this is because money market securities are usually without certain guarantees therefore the trust factor is very dominant before the letters are purchased by investors in addition to other factors.

The purpose of the money market is to provide an alternative for both bank and non-bank financial institutions to obtain sources of funds or invest funds in accordance with Islamic law. In the absence of this financial market, money borrowers (creditors)will have difficulty in finding debtors who are willing to lend to him. Thus the money market benefits as follows :

- a. Intermediaries in the trading of short-term securities.
- b. Collector of funds in the form of short-term securities
- c. Sources of financing for the company to mrlakukan investment.
- d. Intermediary for foreign investors in distributing short-term loans to companies abroad.

The main task of bank management, no exception is Islamic banks is to maximize profits, minimize risk, and ensure the availability of sufficient liquidity. management cannot arbitrarily attract customers to deposit their funds in the bank without confidence that the funds can be invested profitably and can be returned when the funds can be withdrawn at any time.or the fund has matured. In addition, management must simultaneously consider various risks that will affect the change in the level of profit earned.

One of the operational obstacles faced by Islamic banks is their difficulty in controlling liquidity efficiently. This can be seen in several symptoms including:

- a. Unavailability of immediate investment opportunities on deposit funds received. These funds accumulate and idle for a few days thereby reducing their average income.
- b. Difficulty disbursing investment funds that are running at a time when there is a withdrawal of funds in a critical situation. As a result, Islamic banks are holding back their liquid tools in larger amounts than the average conventional banking. Once again this condition also led to a reduction in the average income of banks. Depositors, who are only looking for profit tend to move their funds to other banks, while loyal customers get the impression that following sharia principles means increasing the burden.

Without the money market facilities, conventional banks will face the same problem, considering that it is generally difficult for banks to avoid mismatched financial positions, to

utilize funds that are temporarily idle, banks can make short-term investments in the money market. conversely, to meet the fund's need for short-term liquidity due to mismatch, banks can also earn on the money market.

Due to existing securities in the conventional financial market except stocks based on the interest system, Islamic banking faces this obstacle given that Islamic banks are not allowed to be part of the assets or passive interest-based. this problem has a negative impact on liquidity management and long-term investment management. As a result, Islamic banks are forced to concentrate their portfolios only on short-term assets related to trade, as opposed to investment and economic development.

Although the management has succeeded in creating a market for Islamic banking, they have not yet reached an internal market that guarantees profitability and long-term viability. Sooner or later they will get out of this problem and will depend on speed, aggressiveness and effectiveness they build instruments and techniques that enable the achievement of a two-way intermediation function for Islamic banking. they must find a way and tools to develop marketable sharia-based financial instruments. Where the portfolio generated by Islamic banking can be marketed in a wider financial market.

Basic Differences Between Conventional Money Market And Islamic Money Market

Basically, the Islamic money market and the conventional money market have some of the same functions, namely

- a. It is a liquidity instrument whose function is to facilitate banks that experience liquidity difficulties, both in the form of lack and excess liquidity. If a bank has excess liquidity it can use money market instruments to invest its funds. if there is a lack of liquidity, he can issue instruments that can be sold to get cash.
- b. Has a maximum period of 90 days or is a type of short-term investment.
- c. Payment can be made by credit note through clearing or bilyet giro of Bank Indonesia or electronic fund transfer.

There are fundamental differences between the Islamic money market and the conventional money market, namely

- a. PUAS does not base its transactions on interest rates, but on profit sharing patterns, while PUAB throughout it bases its transactions on interest rates.
- b. Satisfied participants include Islamic banks and conventional banks while PUAB participants are only conventional banks.
- c. The devices used in PUAS are IMA certificates, while the general devices used in PUAB are promissory notes.
- d. IMA certificate as the main device satisfied can only be transferred 1 time, while promissory notes can be handed repeatedly as long as it has not yet matured.
- e. In the calculation of compensation, PUAS does not follow the interest component, while in PUAB, interest is the main component in the calculation of benefits.
- f. The risk arising from transaction activities in PUAS is relatively much smaller than the risk of PUAB transactions.
- g. The IMA certificate as the main instrument is satisfied to be issued as proof of participation in an investment project so that it can only be transferred once, while the promissory note is a negotiable instrument that does not limit the parties in negotiating until the maturity period ends

Money Market Transaction Mechanism Based On Sharia Principles

a. Terms Of Islamic Money Market Mechanism

The money market mechanism can only function properly if it meets the following conditions :

1. Quite a lot of instruments instead of money can be traded. Money traded must have a certain form (instrument), among others: Bank Indonesia certificate (SBI), Money Market Securities (SBPU), certificates of deposit, and call money.
2. There are financial institutions that are willing to be market makers, these institutions will store money market instruments and will sell them in units that have short-term excess funds, or buy them from units that lack short-term funds. In Indonesia, this function is run by fidor invest which is often called security house.
3. Adequate communication infrastructure.
4. Reliable financial information, namely the financial data of the company that issued the SBPU, so that every interested person can make research on the state of the company.

b. Islamic Money Market Mechanism

Islamic money market mechanism as follows :

1. Cal Money, can be traded directly between banks and is usually done over the phone. This is done because the liquidity needs of banks are usually urgent, either due to deficiencies in clearing or to meet liquidity obligations.
2. SBI and gas stations must be traded through the security house (fidorinvest) as an intermediary between the owner and user, through the sale and purchase of securities with the mechanism ; BI sells SBI to fidorinvest, then on the financial institution.
3. Mechanism for gas stations; customers, both business entities and individuals issue a letter of acceptance or money order to obtain funds from a bank or non-bank financial institution, then these securities are traded by the bank or non-bank financial institution through a security house that will trade with BI.

Explanation of the mechanism as follows:

First: Call money mechanism; can be traded directly between banks, and is usually done by phone. This is done because the bank's liquidity needs are usually urgent, either due to deficiencies in clearing or to meet the needs of liquidity obligations. Second: while SBI and SBPU must be traded through security house (Fidorinvest) as an intermediary between owners and users, through buying and selling securities with a mechanism; BI sells SBI to Fidor invest, then later to financial institutions. Third: mechanism for SBPU; customers, both business entities and individuals issue acceptance letters or money orders to obtain funds from banks or non-bank financial institutions, then these securities are traded by banks or non-bank financial institutions through security houses that will trade with BI.

c. IMA transaction settlement mechanism

The mechanism and settlement of Islamic interbank Mudharabah investment transactions (IMA) in the money market are as follows :

1. Islamic interbank Mudharabah Investment Certificate (IMA) issued by the Fund Management bank in triplicate. The first and second sheets must be submitted to the fund-raising bank as proof of the fund-raising, while the third sheet is used as an archive for the issuing bank.
2. The investor Bank in the Syariah interbank Mudharabah Investment Certificate (IMA) makes payment to the IMA certificate issuing bank using a credit note through a clearing house, or Bank Indonesia bilyet giro by attaching the second sheet of the

Syariah interbank Mudharabah Investment Certificate (IMA) or by electronic fund transfer accompanied by the submission of the second sheet of the Syariah interbank Mudharabah Investment Certificate (IMA) to Bank Indonesia.

3. The transfer of Mudharabah Investment Certificate between sharia banks (IMA) can only be done by the first investment bank, while the second investment bank is not allowed to transfer to another bank until the expiration of the term. This means that the Islamic interbank Mudharabah Investment Certificate (IMA) can only be transferred once.
4. This is so that the issuing bank of the IMA certificate can make payments to the entitled bank. Therefore, the bank holding the final certificate is required to notify the ownership of the certificate to the issuing bank Mudharabah interbank Syariah (IMA).
5. At maturity of Mudharabah interbank Syariah Investment Certificate (IMA), the transaction settlement is carried out by the Issuing Bank of Mudharabah interbank Syariah Investment Certificate (IMA) by making payment to the last certificate holder of the nominal value of the investment (face value) by using a credit note through clearing, using Bank Indonesia bilyet giro or using electronic funds transfer. The reward for the Islamic interbank Mudharabah Investment Certificate (IMA) will be paid on the first business day of the following month.
6. The reward calculation for the Islamic interbank Mudharabah Investment Certificate (IMA) is calculated based on the level of realization of the reward. Islamic interbank Mudharabah Investment Certificate (IMA) refers to the return rate of Mdharabah investment deposits at the issuing bank in accordance with the term of the planter.

d. Islamic Money Market Operational Mechanism

MUI Fatwa stipulates that the mechanism of Islamic money market as follows:

1. The interbank money market based on sharia principles (PUAS) is the activity of short-term financial transactions between market participants based on sharia principles.
2. Contented participants in the primary market are Islamic banks as primary and in their capacity as issuers of contented instruments or funds and conventional banks only as owners of capital.
3. Satisfied participants in the secondary market, are Islamic banks and conventional banks as sellers and buyers of instruments are satisfied.
4. CERRTIKATI PUAS is an instrument of proof of ownership of investments transacted in PUAS.
5. Brokers are satisfied certificate trading intermediaries who obtain permission from Bank Indonesia.
6. In the primary market, the issuance of satisfied certificates can be done with mudharabah and Musharakah contracts.
7. Certificate sharing the certificate of satisfaction issued comes from the asset on which the issuance is based, both assets that have a fixed return and assets that have a non-fixed return, according to the contract.
8. Satisfied certificates can be transferred ownership before maturity.
9. In the secondary market, transactions made for the transfer of a certificate of satisfaction may use a sale and purchase agreement (bai') at an agreed price.

10. The seller of a satisfied certificate may promise (WA'd) to buy back the certificate at the originally agreed price.
11. In case the promise to buy back is not fulfilled then the seller will be penalized.
12. Satisfied transactions can be done bilaterally, through brokers, auctions or through other mechanisms with still principled on Sharia.
13. Transactions between participants are satisfied with the broker using the Ju'ala contract.

Things That Are Prohibited In The Islamic Money Market

Things that are prohibited in the money market and Islamic capital market according to Fatwa DSN-MUI No. 80 of 2011 are as follows :

a. Manipulation (Tadlis)

Manipulation is the act of concealing defects in the contract object performed by the seller to trick the buyer as if the object is not defective.

b. Taghir

Taghir is an attempt to influence others both by speech and actions that contain lies, in order for people to make transactions.

c. Najash

Najash is the act of bidding for goods at a higher price by a party that does not intend to buy to create the impression that many parties are interested in buying it.

d. Hoarding (ihtikar)

Hoarding is buying an item that is needed by the community at a time when the price is expensive and hoarding it for resale at a time when the price is expensive.

e. Ghabn Fahish

Ghabn Fahish is an imbalance between two goods (objects) that are exchanged in a contract both in quality and quantity.

f. Bai ' Al-Ma'dun

Bai ' Al-Ma'dun is a sale and purchase object that does not exist at the time of the contract or sale of goods that are not owned by the seller.

g. Riba

Riba is an addition given to the principal debt in exchange for absolute deferment of payment

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13. Transactions between participants are satisfied with the broker using the Ju'ala contract

Analysis Of The Fatwa Of The National Sharia Council On The Interbank Money Market Based On Sharia Principles.

If viewed in terms of formulation in general, this fatwa begins by stating the considerations for the issuance of fatwas, followed by excerpts of good arguments referring to the Qur'an, Hadith, and fiqh rules and the last is the decision.

Necessarily in the formulation needs to be explained in advance about the meaning and purpose of the interbank money market is intended in this fatwa. So that the understanding of the money market in question becomes clear and does not cause misunderstanding. At least it should be explained in the appendix.

In terms of the considerations stated in this fatwa, there are three points (as mentioned before), it should also look at the reality of agreements between the owners of funds and parties who need funds, because in money market activities there is often a purchase agreement (purchase agreement) of funds from the original seller, including a guarantee of repurchase if promised by the seller himself.

As for the arguments put forward by this fatwa, it generally consists of the arguments of the Qur'an which are undoubtedly true. This Fatwa also uses the arguments of the Hadith relating to transactions in the money market, then also refers to the rules of fiqh that are adequate and well known in general, and equipped with ijma' or ulama agreement on this matter. However, the arguments put forward are generally the same as the arguments used to facilitate the sale and purchase of foreign exchange, stock exchanges and so on.

In terms of the decisions contained in the fatwa, it is stated that the justified interbank money market is one that does not use interest, and the recommended contracts are mudharabah, Musharakah, qard, wadiah, and sharf, and ownership of market instruments can only be transferred once. But in reality the contracts that are often used are mudharabah and Wadi'ah. As for contracts such as qard and sharf, they are rarely used. This happens because in Islamic banks the instruments provided in the money market are IMA (interbank Mudharabah Investment Certificate), SBPU (Money Market Securities) Mudharabah and SWBI (Bank Indonesia Wadi'ah certificate).

As for what instruments are used in the money market with Sharia principles, in the fatwa it is also not given an explanation of how the mechanism if done in the money market. In Islam, however, an instrument is representative of ownership or property. Therefore, the instrument can be traded if there is an underlying asset or transaction. There are two methods in issuing instruments by Islamic banks, first, one principle for various transactions. The principle used is profit sharing (mudharabah/Musharakah) for various transactions, such as buying and selling, renting, and others; second, one principle for one transaction. This method resembles a fund in the capital market.

As for the principle of profit sharing (mudharabah/Musharakah) resulting in business ownership on the side of the owner of the funds, when the assets of Islamic banks Securitized and instruments sold to the market, then the buyer of the instrument becomes the owner of new capital that replaces the old capital owners. These assets, when collected, will become joint assets (mal Jupiter) that can be denominated in fractions and sold to buyers. Pricing of these instruments follow Islamic law, meaning; the price of the instrument can be negotiated between the seller and the buyer, so it can cause ups and downs in the price of the instrument. These instruments can also be an alternative investment for Islamic banks in Indonesia, especially when experiencing excess liquidity.

Conventional banking assumptions that use debt as an instrument are still inherent in the banking world. More in law No. 7 of 1992 as amended by law No. 10 of 1998 concerning banking, commercial banks (including Islamic banks) are only allowed to purchase investment instruments in the form of fixed income.

Meanwhile, through Sharia interbank money market transactions, all commercial banks, including Sharia, can place funds in the form of interbank investment certificates (IMA) issued by sharia banks that experience liquidity difficulties. By purchasing an IMA, the return on the investment or loan will be paid when the IMA matures. So banks are buying profit sharing revenue sharing instead of interest.¹⁴ the bottom line in the money market sharia principles traded instruments are in the first stage (first level securitization), these instruments will become derivative instruments if Securitized again (second level securitization) agreed by the scholars not to be traded.

What needs to be noted in this money market, that in Islam, What is allowed is the sale of proof of ownership, not the sale of certificates of proof of ownership.¹⁵ because the certificate only represents the assets owned, but because Islamic banks are only in the first stage of securities, then it will not experience an acceleration of the monetary quantity (monetary enchanment) above the quantity in the real sector.

Although in this fatwa the problem of money market based on sharia principles with various contracts that are allowed as if it has become one of the solutions in money market transactions, but in this money market problem the problem arises again, namely in terms of repurchase agreement(repurchase agreement). Because in this case there is controversy among scholars about the repurchase agreement (repurchase agreement). Because Islamic money market transactions using the agreement when making sales, meaning; the seller will buy back the asset he sold within a certain period of time.

Included in this category is a redemption guarantee if promised by the seller himself. The majority of scholars do not allow this conditional agreement. Only a small part of the Hanafi school allows it under the name bai' al wafa. So to anticipate this, the issuing bank assigns another company to be the buyer of the issued instrument.

The implication of the fatwa of the National Sharia Council No: 37 is that because the interbank money market based on sharia principles is not justified using interest, it can be replaced by using alternative contracts such as:29 first: Mudharabah, which is a business cooperation agreement between two parties where the First party (malik,shahib al-maal) provides all capital, while the second party ('amil, mudarib, customer) acts as manager, and business profits are divided between them according to the agreement outlined in the contract. Second: Musharakah, which is a cooperation agreement between two or more parties for a particular business, where each party contributes funds (capital) with the provision that the benefits and risks will be borne together in accordance with the agreement. Third: al-Qardh, which is an aqad financing to certain customers with the provision that the customer is obliged to return the funds received to the Islamic financial institution at a time agreed upon by the Islamic financial institution and the fourth customer: Wadiah (deposit of money, goods and securities), which is the contract of one person to another by entrusting an object to be properly maintained (as is customary).Fifth: al-Sharf (buying and selling foreign exchange).

CONCLUSION

From various descriptions and studies of the fatwas mentioned above, it can be concluded that the interbank money market with Sharia principles is a financial transaction activity (without interest) in the short term between market participants (Islamic banks as owners or recipients of funds and conventional banks only as owners of funds), with the transfer of ownership of the money market instrument only once.

The only money market that is allowed is the money market that does not use the interest system, this is to avoid riba nasi'ah because the loss (danger) of the interest is greater than the profit (mashlahah). In addition, because Islam prohibits the sale and purchase of money as a commodity or speculation. The National Sharia council should develop the concept of policies and procedures for money market activities in more detail, so that the parties to the transaction can comply with the principles of established Sharia norms. However, the fatwa of the National Sharia Council No:37/DSN-MUI/X/2002 can be used as a solution for parties (banks) that conduct transactions in the money market by providing alternative contracts mudharabah (muqaradhah), Musharakah, Qard, Wadiah, and al-Sharf.

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