

## ISLAMIC MONETARY SYSTEM: FOUNDATIONS, NORMATIVE PILLARS, AND IMPLEMENTATION PROSPECTS IN THE MODERN ERA

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### Abstract

Recurrent global financial crises, such as the 1997 Asian crisis, the 2008 subprime mortgage crisis, and the economic uncertainty post-COVID-19 pandemic, have highlighted the structural weaknesses of the conventional monetary system based on debt and interest, which frequently triggers imbalances between the monetary and real sectors and encourages speculative behavior. In response, the Islamic monetary system presents itself as a normative and practical alternative emphasizing justice, stability, and social welfare through the prohibition of *Riba*, *Gharar*, and *Maysir*, as well as linking money to real economic activities. This article examines the philosophical foundations, normative pillars, and operational principles of the Islamic monetary system, highlighting the roles of classical scholars such as al-Ghazali, Ibn Taymiyyah, and Ibn Qudamah, as well as the contributions of contemporary thoughts by Wahbah Zuhaili and Umer Chapra. This study also traces the history of the application of the Islamic monetary system during the time of the Prophet and the Khulafaur Rasyidin based on the bimetallic standard (*dinar-dirham*), and examines the implementation of sharia monetary policy in Indonesia through instruments such as Sukuk, SBIS, and the Islamic interbank money market. The research methodology uses a qualitative approach with library research, analyzing primary and secondary literature to identify the foundations, pillars, and prospects of the Islamic monetary system. The results indicate that the Islamic monetary system is capable of integrating money creation control, policy transmission based on *risk-sharing*, deepening of the real sector, and governance based on *Maqasid Syariah*. Although facing challenges such as low Islamic financial literacy and the need for regulatory harmonization, the prospects for the Islamic monetary system are very bright as an inclusive, sustainable, and equitable economic solution in the era of globalization and financial technology innovation.

**Keywords:** *Islamic Monetary System, Riba, Gharar, Maqasid Syariah, Risk Sharing.*

### 1. INTRODUCTION

Recurrent global financial crises in recent decades, from the 1997 Asian crisis and the 2008 subprime mortgage crisis to the post-COVID-19 economic uncertainty, have reignited deep debates regarding the structural weaknesses of the conventional monetary system grounded in debt and interest. Such systems tend to create imbalances between the monetary sector and the real sector, causing financial activities to often become speculative and stray from the basic function of money as a medium of exchange and a store of value. This phenomenon triggers economic bubbles and leads to crises that have broad impacts on social stability and public welfare.

As a response to these weaknesses, Muslim economists propose the Islamic monetary system as a normative and practical alternative believed to be more equitable, stable, and oriented towards social welfare. The Islamic monetary system is built upon the principles of *Tauhid*, justice, and *Maslahah*, emphasizing the close link between monetary activities and real economic activities. In this system, money is not treated as a commodity that can be traded to gain *Riba* profits, but rather as an instrument to facilitate the exchange of goods and services and to encourage productivity in the real sector.

More than just an interest-free system, the Islamic monetary system is a comprehensive paradigm that links moral, social, and economic dimensions within the framework of Sharia law. Its goal is not only to create price and monetary stability but also to ensure equitable wealth distribution, sustainable economic development, and the achievement of Sharia objectives (*Maqasid Syariah*), namely the protection of religion (*hifz al-din*), life (*hifz al-nafs*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), and wealth (*hifz al-mal*).

In the context of the modern era, the Islamic monetary system faces both challenges and significant opportunities. Economic globalization, financial technology (*fintech*) innovations, and increasing public awareness of ethical finance provide space for the application of Sharia principles at various levels of monetary policy. Therefore, this research seeks to systematically outline the philosophical foundations, operational principles, and implementation models of the Islamic monetary system in the contemporary world. Through a comprehensive approach, it is hoped that this study can provide theoretical and practical contributions toward building a financial system that is fairer, more stable, and oriented toward human welfare.

## **2. IMPLEMENTATION METHOD**

This article employs a qualitative approach with a library research method. Data was collected through the search and analysis of relevant primary and secondary literature, such as classical texts (the Qur'an, Hadith, works of scholars like al-Ghazali, Ibn Taymiyyah, Ibn Qudamah, and Wahbah Zuhaili), as well as books, scientific journals, and contemporary policy documents related to the Islamic monetary system and its implementation in Indonesia. The analysis was conducted descriptively and analytically to identify, elaborate, and systematize the philosophical foundations, normative pillars, operational principles, and implementation prospects of the Islamic monetary system in the modern era. Data validity was strengthened by source triangulation and cross-referencing between literature, so that the study results provide a comprehensive and critical overview of the raised theme

## **3. RESULTS AND DISCUSSION**

### **3.1 Definition and Fiqh Foundation of the Islamic Monetary System**

A monetary system is the entirety of rules, institutions, instruments, and mechanisms governing the creation, circulation, and control of money, as well as policy transmission to the real economy to achieve specific macroeconomic goals. In the Islamic perspective, the monetary system is structured upon Sharia principles that reject *Riba*, avoid *Gharar* and *Maysir*, and link money to real activities, with the primary goals of distributive justice, value stability, and social welfare (*Falah*) within the corridor of *Maqasid Syariah*.

Wahbah Zuhaili, a contemporary scholar and expert in *Fiqh Muamalah*, views the Islamic monetary system as an integral part of the Islamic economic system derived from the Qur'an, Sunnah,

and scholarly interpretation. According to Zuhaili, the main characteristics of the Islamic monetary system are the prohibition of *Riba* in all forms of transactions, the enforcement of principles of justice and transparency, and the management of public wealth as a trust from Allah that must be used for the benefit of society. He asserts:

وأما النظام المالي في الإسلام فإنه يقوم على أسس الشريعة الإسلامية من القرآن والسنة وإجماع العلماء، ويتميز بتحريم الربا بجميع أنواعه، وتحقيق العدالة والشفافية في المعاملات، وإدارة المال العام كأمانة يجب صرفها في مصالح الأمة. ويشترط في المعاملات المالية أن تكون قائمة على العقود الصحيحة، خالية من الغرر والميسر والتلاعب بالأسعار، مع التأكيد على توزيع الثروة من خلال الزكاة وتحريم الاحتكار. وتلتزم الدولة بدور المنظم والضامن للعدالة الاجتماعية والاقتصادية.

*"As for the financial system in Islam, it is built upon the foundations of Islamic Sharia from the Qur'an, Sunnah, and the consensus of scholars, and is characterized by the prohibition of Riba in all its types, the realization of justice and transparency in transactions, and the management of public funds as a trust that must be spent on the interests of the Ummah. Financial transactions are required to be based on valid contracts, free from Gharar, Maysir, and price manipulation, with an emphasis on wealth distribution through Zakat and the prohibition of monopoly. The state is obliged to act as a regulator and guarantor of socio-economic justice."* (az-Zuhaili, 2019).

This view confirms that all financial resources must be allocated fairly and efficiently for the common good, with the state's role as regulator and guarantor of socio-economic justice. Al-Ghazali emphasized *dinar-dirham* as a measure of value and a fair medium of exchange, not as commodities for profit; thus, money circulation must support productive *Muamalah* and not speculation. Actions that damage the integrity of money's value are injustices, while honest disclosure of metal content is acceptable within the corridor of transactional justice. He wrote in *Ihya' Ulumuddin*:

الدينار والدرهم هما واسطة بين جميع الأموال، وبهما تعرف مقادير الأموال، وليس لهما غرض في أنفسهما، بل هما كالماء والهواء، لا غرض فيهما، وإنما يتوصل بهما إلى غيرهما.

*"Dinar and dirham are intermediaries between all goods, and through them, the value of goods is known. They have no purpose in themselves, but are like water and air; there is no purpose in them (intrinsically), but rather they are means to acquire other things."*

أما الفلوس إذا كانت نافقة في المعاملات، فإنها تثبت في الذمة كالدراهم والدنانير، فإذا كسدت ولم تجر في المعاملات، رجع إلى القيمة، كما يرجع في سائر المبيعات إلى القيمة عند تعذر المثل. وأما إذا أضر الناس بإحداثها أو بإبطالها، فإن السلطان يعاقب من فعل ذلك، ويجبره على العدل، فإن ذلك من أعظم الظلم للمسلمين.

*"As for Fulus, if it is current in transactions, it becomes a liability in the dhimmah (obligation) like dirhams and dinars. If it becomes obsolete and no longer circulates in transactions, it returns to its (real) value, just as in other sales one returns to the value when a like replacement is impossible. If someone harms the people by minting or annulling it arbitrarily, the ruler must punish him and force him to act justly, for that is among the greatest injustices against the Muslims."*

Ibn Qudamah positioned money in *Fiqh Muamalah* as a price tool guarded through *Sarf* discipline, the prohibition of *Riba al-Fadl* and *al-Nasi'ah*, and conditions of ownership and handover, so that its circulation remains anchored to exchange justice and does not shift into a speculative commodity. This framework is reinforced by the establishment of the *dinar-dirham*

standard as the Sharia unit of account for consistency in assessing obligations and transactions, as asserted in *Al-Mughni*.

In the contractual realm, the definition of '*Urbun* (down payment) demands clarity of conditions, objects, and Sharia causes to avoid falling into *Gharar* or *Akl al-mal bi-l-batil* (consuming wealth unjustly). Thus, the down payment mechanism must be designed transparently and proportionately so that the function of money continues to serve welfare and value stability, not speculation without a real counterpart. Al-Shatibi formulated *Maqasid—Dharuriyyat, Hajiyyat, Tahsiniyyat*—which guide policy toward the protection of faith, life, intellect, lineage, and wealth, so that monetary decisions are guided to avoid exploitation and ambiguity and to advance the justice of wealth distribution and circulation.

During the time of Prophet Muhammad SAW and the Khulafaur Rasyidin, the Islamic monetary system was based on a bimetallic standard, namely the use of *Dinar* (gold) and *Dirham* (silver). Al-Maqrizi in *Ighatsat al-Ummah bi Kashf al-Ghumamah* confirmed that *dinars* and *dirhams* in the *Jahiliyyah* period followed Persian and Roman standards, were then recognized by the Prophet SAW, and Umar bin Khattab innovated by minting *dirhams* with Persian patterns but adding Islamic phrases.

### 3.2 Normative Pillars of the Islamic Monetary System

Pilar normatif sistem moneter Islam bertumpu pada pelarangan *riba*, *gharar*, dan *maysir* untuk The normative pillars of the Islamic monetary system rest on the prohibition of *Riba*, *Gharar*, and *Maysir* to close opportunities for financial exploitation, bind returns to risk participation and real productivity, and reject wealth acquisition based on games of chance without value creation. This outline is rooted in the text regarding *Riba* in QS. al-Baqarah [2]: 275–279, which affirms that Allah has permitted trade and forbidden *Riba*.

The prevention of *Gharar* demands transparency in contract conditions—clarity of object, price, quality, and delivery time—as well as the reduction of information asymmetry. Modern practice refers to institutional standards and industry guidelines to distinguish major *Gharar* that invalidates a contract from minor *Gharar* that is tolerated, so that contract governance maintains the integrity of exchange and the certainty of the rights and obligations of the parties.

The prohibition of *Maysir*—which covers speculative payoffs without underlying benefits and zero-sum schemes—ensures that monetary flows are not severed from real activities and are not trapped in volatility that damages distribution justice and macro resilience. All these pillars are guided by *Maqasid Syariah* to protect wealth (*hifz al-mal*) as well as the other four primary objectives. On this foundation, the *risk-sharing* paradigm replaces *risk-shifting* based on interest-bearing debt: returns are linked to asset/project performance and proportional risk participation (MASILE, 2025). To ensure execution consistency, the Sharia reporting and accounting framework emphasizes material disclosure and the principle of prudence to prevent *Gharar* in reporting, strengthening the accountability of monetary policy and the operations of Islamic financial institutions within the corridor of ethics and compliance (Prasetyo, 2017).

### 3.3. Operational Principles and Mechanisms of Islamic Monetary Policy

The Islamic monetary system demands a direct link between monetary policy and the real sector. Every instrument, such as *Murabahah*, *Musyarakah*, to *Mudarabah* contracts, must be based on underlying real assets that support development and equity. Money creation and credit policies must follow real output growth, preventing inflation and unproductive excess liquidity.

According to M. Umer Chapra, the Islamic monetary system must meet several key requirements: optimal economic growth and full employment, equitable distribution of income and wealth, and currency value stability. Chapra rejects the use of interest rates as an operational target and emphasizes that the demand for money in an Islamic economy arises primarily from transaction

and precautionary needs, not from speculative motives. Other contemporary thinkers like Muhammad Baqir al-Sadr and Wahbah Zuhaili emphasize the importance of *Maqasid Syariah*, social justice, and the strengthening of the real sector as foundations of Islamic monetary policy.

The operational principles and mechanisms of Islamic monetary policy in Indonesia have been concretely implemented through various instruments linking the monetary sector with the real sector. Bank Indonesia, as the monetary authority, has developed Sharia Monetary Operations (OMS) involving the sale and purchase of Sharia securities such as Bank Indonesia Sharia Certificates (SBIS), State Sukuk, and Bank Indonesia Sharia Deposit Facilities (FASBIS). Empirically, the application of Sharia monetary policy in Indonesia has contributed to financial system stability. A study by Mutmainah et al. (2025) shows that during the 2018–2023 period, inflation was significantly suppressed despite fluctuations due to global pressures.

#### **3.4. Prospek dan Tantangan Model Ideal Sistem Moneter Islam**

Prospek dan model ideal sistem moneter Islam terletak pada kemampuannya mengintegrasikan pengendalian penciptaan uang, transmisi kebijakan berbasis *risk-sharing*, pendalaman sektor riil, dan tata kelola yang berlandaskan *maqasid syariah*. Model ini tidak hanya menekankan efisiensi ekonomi, tetapi juga menuntut keadilan, transparansi, dan kepatuhan syariah sebagai fondasi utama. Keunggulan utama model ini adalah kemampuannya menekan spekulasi dan perilaku konsumtif, serta mendorong investasi riil yang menciptakan lapangan kerja dan pendapatan bagi masyarakat luas. Namun, implementasi model ideal ini masih menghadapi tantangan struktural, seperti rendahnya literasi masyarakat terhadap produk keuangan syariah, keterbatasan jumlah instrumen moneter aktif, dan perlunya harmonisasi regulasi antara sistem konvensional dan syariah. Penguatan infrastruktur moneter syariah, edukasi publik, serta sinergi antar-lembaga menjadi kunci untuk mengoptimalkan peran sistem moneter Islam dalam menciptakan keseimbangan ekonomi yang adil dan berkelanjutan.

#### **4. CONCLUSION**

The conclusion of the study on the Islamic monetary system indicates that this system offers an alternative based on principles of justice, transparency, and Sharia compliance, integrating money creation control, policy transmission based on *risk-sharing*, and real sector deepening. The Islamic monetary system rejects *Riba*, *Gharar*, and *Maysir*, and places money as a medium of exchange and a unit of account serving social and economic welfare, not as a speculative commodity.

Foundations of classical and contemporary *Fiqh*, such as the views of Wahbah Zuhaili, al-Ghazali, Ibn Taymiyyah, and Ibn Qudamah, affirm the importance of value stability, distributional justice, and transparent and fair contract mechanisms. During the time of the Prophet and Khulafaur Rasyidin, the Islamic monetary system used a bimetallic standard (*dinar* and *dirham*) emphasizing weight integrity and metal purity, as well as fair money management through the *Baitul Mal* institution.

In the modern era, Indonesia has implemented these principles through instruments such as Sharia Monetary Operations, Sukuk, and the Sharia interbank money market, which support financial inclusion and macroeconomic stability. Despite facing challenges such as low Sharia financial literacy and the need for regulatory harmonization, the Islamic monetary system has bright prospects as an inclusive, sustainable, and equitable economic solution, supported by technological innovation and supervisory institution synergy. Thus, the Islamic monetary system offers not only stability and economic efficiency but also guarantees social sustainability and distributional justice, building a resilient economic foundation oriented toward the welfare of the Ummah.



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