

TOWARDS AN ISLAMIC CENTRAL BANK: THE INTEGRATION OF ISLAMIC MAQASID VALUES IN MODERN MONETARY POLICY

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ABSTRACT

This study aims to analyze the urgency of Maqasid syariah integration in modern monetary policy and formulate a conceptual model of Islamic Central Banking that is relevant to contemporary economic dynamics. Descriptive qualitative approach with literature study method is used to examine the scientific literature, official regulations, and reports of international financial institutions related to the development of Islamic monetary policy. The findings of the study suggest that conventional interest-based monetary systems have structural weaknesses in maintaining long-term stability, reducing distribution inequities, and preventing systemic risk. In contrast, the integration of maqasid Sharia values, especially hifz al-mal, maslahah, and the principle of justice is able to build a monetary framework that is more inclusive, ethical, and welfare-oriented. Instruments such as sukuk for open market operations, profit-sharing ratios as an alternative to policy rates, and liquidity mechanisms based on Sharia contracts are considered potential foundations of Sharia central banks. In addition, digitalization through the development of Sharia central bank digital currency (CBDC) opens opportunities for the creation of a transparent, efficient, and fixed monetary system based on Islamic values. This study offers the framework of "Islamic Monetary Policy Framework based on Maqasid Syariah" as a theoretical and practical contribution to monetary authorities in designing fair and sustainable policies.

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INTRODUCTION

The development of the global financial system today shows an increasingly complex dynamics, characterized by increasing economic uncertainty, exchange rate fluctuations, as well as widespread systemic risks due to interconnections between countries. (Salsabila et al., 2025) recurrent global financial crises, ranging from the 2008 subprime mortgage crisis to geopolitical tensions and post-pandemic global interest rate instability, have asserted that interest-based monetary models have limitations in maintaining long-term economic stability. Conventional financial systems tend to be oriented towards efficiency and short-term gains, while aspects of justice, social balance, and moral sustainability are often overlooked (Schwarcz, 2008). In this context, there is an urgency to develop a monetary policy paradigm that is not only economically stable, but also aligned with ethical values and Maqasid Sharia.

The central Bank as the monetary authority plays a vital role in maintaining currency value stability, controlling inflation, and ensuring the sustainability of the national financial system. (Huda Mursyidah Engku Hassan Ashari et al., 2022) however, the policy orientation

of conventional central banks generally still rests on the management of interest rates and other interest-based instruments that are potentially contrary to sharia principles. This poses a dilemma for countries with large Muslim populations that seek to enforce Islamic value-based financial systems. A monetary policy Model that is fully in line with Sharia principles is still a conceptual and practical challenge, especially in terms of providing instruments that are fair, transparent, and free from *riba*, *gharar*, and *maysir* elements.(Fasa Iqbal et al., 2022).

The global phenomenon of recent years indicates a shift towards a more ethical, stable and inclusive monetary system. The growth of the Islamic finance industry continues despite macroeconomic pressures such as global inflation, geopolitical tensions, and stress on the banking sector. The Key Highlights of IFSB Report 2024 notes that Islamic Financial Services Industry (IFSI) assets grew 4% year-on-year, reaching USD 3.38 trillion in 2023. The asset composition shows the dominance of the Islamic banking sector which accounts for 70.21% of IFSI's total assets, while *sukuk* outstanding and Islamic funds collectively contribute 29.08%, and Islamic insurance (*takaful*) at 0.71%. In addition, the trend of sovereign *sukuk* issuance by countries such as Indonesia, Malaysia, and Saudi Arabia continues to increase, signaling high confidence in value-based financing mechanisms. The development of sustainable finance, including ESG *sukuk*, further strengthens the integration opportunities between the principles of Maqasid Sharia and the green economic development agenda at the global level.(Key Highlights of IFSB Report 2024).

In the national context, Indonesia as the country with the largest Muslim population in the world has shown a strong commitment to the development of Islamic finance. Bank Indonesia and the National Committee on Islamic Economics and Finance (KNEKS) continue to strengthen the policy framework that supports the Islamic monetary ecosystem, such as the development of the Islamic money market, the digitalization of the *halal* payment system, as well as strengthening liquidity through Bank Syariah Indonesia (BSI) and state *sukuk* instruments. However, Sharia monetary policy in Indonesia is still partial and has not been fully integrated in the functions of the central bank, both in setting Sharia reference interest rates and in exchange rate stabilization mechanisms based on the principle of Justice.(Islamic monetary operations of Bank Indonesia & strengthening economic stability, 2023)

From the perspective of Maqasid syariah, the transformation of the central bank towards a system based on Islamic values is not only a theological demand, but also a moral and social need. Maqasid Sharia emphasizes on the protection of five main objectives: religion (*hifz ad-din*), soul (*hifz an-nafs*), intellect (*hifz al-'aql*), descent (*hifz an-nasl*), and property (*hifz al-mal*). In the context of monetary policy, *hifz al-mal* is the main principle that demands that money management policies and price stability do not cause economic inequality or unfair distribution. Thus, the Islamic central bank should ideally not only maintain monetary stability, but also ensure social welfare and economic justice through policies oriented to the benefit of the people.(Marwiyati Lukito et al., 2024).

Monetary policy based on Maqasid syariah has the potential to present a more humane and equitable financial system. For example, the implementation of profit and loss sharing based instruments, optimization of *sukuk* as an open market operation tool, and strengthening the real financial system are alternatives to exploitative interest systems. In addition, the digitalization of the global economy presents a new opportunity for central banks to implement technology-based Islamic monetary instruments such as the sharia-based version of the central bank digital currency (CBDC) that can increase efficiency without compromising Islamic ethical values. This implementation is in line with the vision of Islamic Central Banking that does not simply imitate conventional models, but builds a new paradigm that is more equitable, stable, and sustainable.(Hakiem Ajuna IAIN Sultan Amai Gorontalo, 2024).

Although various initiatives have been undertaken, the challenges of transformation towards an Islamic Central bank are still considerable. Among them are the limitations of the legal framework, the lack of harmonization of international standards, as well as the lack of technical understanding among regulators and industry players on the application of Maqasid syariah in monetary policy. Most previous studies have still highlighted technical aspects of policy such as interest rate instruments or market efficiency, without linking them deeply to the values of Maqasid Sharia as a philosophical and moral foundation. In fact, the integration of Maqasid Sharia is the key to distinguishing the Islamic monetary system from conventional systems that tend to be materialistic.

Based on this background, this study aims to analyze the relevance of Maqasid Sharia in modern monetary policy as well as offering a conceptual model of integration of maqasid values in the role and instruments of central banks. This research is expected to provide theoretical contributions in the development of Islamic economics as well as practical contributions to the monetary authorities and Islamic financial regulators. Through a philosophical and analytical approach, this study confirms that the transformation towards a Sharia central bank is a strategic step to realize financial stability that is just and based on divine values in the modern global economic order.

RESEARCH METHODOLOGY

A. Types Of Research

This study uses a qualitative approach with descriptive-analytical method (Zaini et al., 2023). The aim is to provide an in-depth understanding of the concept and potential implementation of Islamic Central Banking in the context of modern monetary policy in line with the principles of Maqasid Sharia. This approach was chosen because it is able to trace the philosophical, ethical, and normative values of Islam in the contemporary monetary system which is still dominated by the conventional interest-based paradigm (riba).

Descriptive qualitative methods are considered relevant because they are oriented to comprehensively describing phenomena without manipulation of variables. This research focuses on exploring the ideas and principles of Sharia monetary policy, as well as on efforts to transform the central bank to function as a guardian of stability as well as economic justice according to maqasid Sharia.

B. Research Approach

This study used the method of library research, (Adlini et al., 2022) by reviewing various relevant and current secondary sources. This approach allows researchers to analyze the theory, regulation, and practice of monetary policy from the perspective of Islamic economics as well as compare it to conventional monetary systems. Sources used include:

1. Reputable scientific journals (indexed Scopus and SINTA) that discuss Islamic central banking, Sharia monetary policy, and Sharia maqasid.
2. Textbook of contemporary Islamic economics and Islamic monetary policy.
3. Official reports and policies from Bank Indonesia (BI), The Financial Services Authority (OJK), and the Islamic Financial Services Board (IFSB) related to Sharia monetary transformation.
4. Fatwas and guidelines from the National Sharia Council – Indonesian Ulema Council (DSN-MUI) relating to Sharia financial policy.

5. The latest international publication (2022-2025) on the implementation of Islamic monetary instruments such as sukuk-based liquidity management and profit-loss sharing instruments.

C. Data sources and analysis techniques

The Data used are secondary, obtained from various scientific literature, official reports and policy documents. The analysis is done through content analysis and normative-interpretative approach, (Adlini et al., 2022) with the following steps:

1. Identify the main theme, namely the principle of Maqasid Sharia in the monetary system and its relevance to the role of modern central banks.
2. Classification of concepts, including comparison between conventional monetary policy and sharia-based monetary policy.
3. Analysis of philosophical and normative values, namely interpreting findings based on the principles of Justice (al-'adl), benefit (maslahah), and balance (tawazun).
4. Conceptual synthesis, namely building a conceptual model of Maqasid syariah integration in the functions and instruments of the central bank.

This analysis aims to produce a theoretical and practical framework on how monetary policy can be designed to achieve economic stability as well as social justice according to Maqasid syariah (Sari sasi gendro, 2022)

RESULTS AND DISCUSSION

A. The concept and urgency of Islamic

Central Banks The idea of an Islamic Central Bank arose in response to the dominance of the conventional interest-based monetary system (riba) and financial speculation (gharar), which often led to socio-economic inequality. The history of this thought can be traced back to the development of the Islamic financial system in the late 20th century, especially after the establishment of the Islamic Development Bank (IDB) in 1975 which encouraged the development of a monetary system based on Islamic values.(Shaikh, 2023)

In the Islamic perspective, the main role of the central bank is not only to maintain price and exchange rate stability, but also to ensure the realization of Justice ('adl), benefit (maslahah), and welfare (falāh) of society. Islamic central banks are idealized to function as moral and social authorities, rather than merely monetary regulators. He must ensure that monetary policy does not result in economic exploitation, accumulation of wealth by a few parties, or instability due to ribawi's practices.(Ayu & Azzaki, 2023).

Thus, the urgency of the transformation towards an Islamic central bank lies in aligning monetary policy with maqasid Sharia values, so that the financial system is not only economically efficient but also spiritually and socially just.

B. Maqasid Sharia in monetary policy

Maqasid syariah the principal objectives of Islamic law form the normative basis in formulating Islamic monetary policy. The main objective of Islamic economics is to achieve a balance between monetary stability, justice of distribution, and the welfare of society.(Putra Muhammad Deni, 2023) therefore, each policy instrument must be in line with maqasid principles, including:

1. Hifz al-mail (protection of property) Monetary policy must reject the practice of usury and speculation, as well as ensure the safety of public property. Profit-loss sharing instruments replace the interest rate system to create economic stability without inequality.(Nst & Nurhayati, 2022)

2. Hifz al-Nafs (protection of life) Macroeconomic stability is part of the protection of the survival of society. Extreme inflation, unemployment, and monetary crises must be anticipated with pro-welfare and equitable monetary policies.(Cheumar et al., 2023)

3. Hifz al - ' Aql (protection of reason) Transparency, Islamic financial literacy, and public education are important parts of monetary policy. Policies that are not understood by the community have the potential to cause distrust and social instability. (Soediro & Meutia, 2018). Implementation of maqasid value in monetary policy is done through:

1. Replacement of interest rate with profit-loss sharing ratio as liquidity reference.
2. Issuance of State sukuk for Open Market Operations.
3. Interbank liquidity management uses Sharia contracts such as wakalah and Murabaha.
4. This approach asserts that monetary policy in the Islamic system pursues not only exchange rate stability and inflation, but also the sustainability and fairness of the economy as a whole. (Irawan et al., 2025).

C. Challenges and prospects for transformation

The transformation towards an Islamic central bank faces a number of structural and institutional challenges. Key challenges include: (Ropiah, 2025)

1. Reliance on the conventional global financial system, which makes the full implementation of sharia principles difficult to implement without comprehensive reform at the international level.

2. Limitations of Islamic monetary instruments, especially in liquidity management and inflation control without using interest rates.

3. Lack of coordination and institutional capacity between the Monetary Authority, Islamic banking, and national and global Islamic financial regulators.

However, there are strategic prospects and opportunities that strengthen the direction of this transformation, among others: (Lsstari et al., 2024).

1. Digitalization of the Islamic financial system, which enables more efficient and transparent monetary management.

2. Government policy support and international regulators, including OJK, Bank Indonesia, and IFSB, in developing a sharia-based monetary framework.

3. The potential of Islamic Central Banking to be a model of sustainable and ethical economy that is able to answer the moral and social crisis of the modern capitalistic system.

With the support of research, innovation, and regulatory harmonization, the concept of a Sharia central bank has the potential to become a milestone in global Islamic economic reform.

D. Conceptual Model Of Maqasid Syariah Integration The conceptual

Model "Islamic Monetary Policy Framework based on Maqasid Syariah " is designed to harmonize monetary objectives, policy instruments, and Sharia values. Conceptually, the model consists of three main pillars:

1. Islamic Monetary Objectives Includes the stability of the value of money, distribution justice, and the economic benefit of the people.

2. Islamic Monetary Instruments 1) Sukuk al-Istithmar and Sukuk al-Salam for open market operations. 2) the profit-sharing ratio to replace the policy rate. 3) Zakat-based liquidity buffer for redistribution of excess liquidity.

3. The value of Maqasid Sharia as an ethical and normative Foundation All policies are directed to achieve a balance between economic efficiency and social justice with the principle of *maslahah 'ammah* (public benefit).

This Model asserts that the Islamic central bank is not only a monetary controlling institution, but also a guardian of moral, social, and spiritual balance in the national and global economic system.(Qoyum, 2023) dalam sebuah kalimat: "beberapa Henry ...".

CONCLUSION

This study confirms that the integration of Maqasid Sharia in monetary policy is a necessity to create a monetary system that is not only economically stable, but also fair and benefit-oriented. The limitations of the interest system in conventional monetary indicate the need for a new paradigm that is more ethical, inclusive, and sustainable. Islamic monetary instruments such as sukuk for open market operations, profit sharing ratios as an alternative to interest rates, and various Islamic liquidity agreements have proven to have strong potential to realize stability as well as economic justice. In addition, digitalization opportunities through the development of Sharia Central Bank Digital Currency (CBDC) provide innovation space for central banks to build more efficient payment and liquidity systems without neglecting sharia principles.

Conceptually, this study offers the framework of "Islamic Monetary Policy Framework based on Maqasid Syariah" as a model capable of integrating spiritual, moral, and social values into modern monetary policy. However, the realization of a Sharia central bank faces regulatory challenges, international policy harmonization, and technical literacy limitations. Therefore, synergy between the government, regulators, academics, and the Islamic finance industry is indispensable to strengthen the foundation of monetary transformation towards a more just, humane, and sustainable direction. Further research is needed to test the effectiveness of Islamic monetary instruments empirically and develop institutional designs of Islamic central banks that are more applicable in the future.

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