

## THE RELEVANCE OF THE ISLAMIC FINANCIAL SYSTEM IN THE LIGHT OF INFLATION: ESSENCE AND PARADIGM

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### Abstract

Every monetary policy should always be concerned with maintaining a stable and sustainable economy because it is the achievement of every nation. On the other side, efforts to control inflation are based on basic planning and strategies aimed at significant economic growth. The purpose of this research is to identify the basics of the problem of inevitable inflation. starting with the relevance of the Islamic financial system in dealing with inflation in each country, so that the framework and paradigm of economic stability and the Islamic financial system are found. This study is qualitative and uses the descriptive analysis method. According to the research results, it was found that inflation cannot be eliminated; in reality, it can only be minimized into stable inflation. It was found that the reality of the instability of the Islamic financial system has an impact on economic stability. So, it takes a framework and widespread awareness of inflation, including how political implementation, increased human resources, and technological potential affect inflation, as well as mapping all problems so that the budget program anticipates the problem. On the other hand, it is necessary to understand the paradigm of stability in the Islamic financial system, which consists of four aspects: behavioral aspects, political aspects, economic aspects, and social aspects.

**Keywords:** Islamic Finance System, Inflation, Paradigm, Stability

## INTRODUCTION

Inflation is a major economic issue and problem in many developing countries (Siregar, 2014). It is a macroeconomic or monetary event that can also be referred to as a global economic sickness (Boediono, 1982). Indonesia, which has the highest inflation rate in Asia, has been affected by the inflation phenomenon. The rupiah's exchange rate versus the dollar has significantly dropped, which is one of the triggers (Aji & Mukri, 2020). Three economic diseases—inflation, unemployment, and payment imbalances—have been identified by macroeconomic studies. As a result, the country's economy suffers from a crisis that possess a serious threat and challenge. However, there are distortions everywhere merely because of the imbalance in population, especially in real wages and increasing poverty (A.Gunawan, 1995).

The macroeconomic goal of maintaining price stability and restrain inflation became the primary focus. Despite the fact that social, economic, and political turmoil in every country, as well as social dynamics, never cease, The maximum effort of such control results in economic stability, with price stability as an indicator, because it minimizes price fluctuations that are detrimental to both consumers and producers (Sutawijaya, 2012).

Inflation control must be pursued in order to see the impact that drives inflation. Among the reasons for inflation control, according to Adrian Sutawijaya, are: First; it has an adverse impact on income distribution imbalances, Second; it has an impact on reducing domestic savings, which are a source of investment funds for developing countries; Third, it has an impact on the occurrence of a trade balance deficit, an increase in the amount of foreign debt; and Fourth, it has an impact on political instability (Sutawijaya, 2012).

Since inflation cannot be stopped, there are only two possible inflation rates: low or stable inflation and excessive inflation. Low or steady inflation is one of the factors that promotes economic growth in a nation (Tambunan, 1996). This is where the benefits are obtained by entrepreneurs and all the people of a country. Efforts and monetary strategies are undertaken to limit the inflation rate so as to create economic growth and increase the level of investment in the future. Conversely, high inflation rates create instability, reduce people's purchasing power, cause distortions occur everywhere (Sukirno, 2012).

In the realm of inflation rates that affect society, it give anybody the opportunity to learn how to do financial planning, sustainable consumption, and save money for their

family's financial stability (Sahban, 2018). The educative side is certainly not felt by the public, because basically inflation is a necessity in macroeconomic activities. Considering both the beneficial and negative effects of inflation, achieving stable inflation is truly a goal of every administration or era of leadership in the government.

Monetary policy is required to establish macroeconomic stability since it must take into account domestic economic phenomena, realities, and affects in addition to the consequences that must be the primary emphasis of any affective solution. Of course, a stable economy is reflected in wide range of employment opportunities, stable prices and real output that has developed and improved. This is where the monetary policy transformation mechanism through the transmission system is needed, aiming as a link between the economy and monetary policy. The monetary policy serves as an inflation controller, namely price stability (Juda, 2002). The loss of price stability of goods or services results in a decrease in the level of purchasing power. Al-Nabhani suggests that the causes of inflation are: Natural Inflation, an increase in people's purchasing power, imports according to and exports increase, and the level of production decreases, another cause of inflation is human error that is due to human error such as corruption, high taxes, and excessive printing of money (Al-Nabhani, 1996; Pratiwi & Prasetyia, 2013).

There are many inflation theories since the inflation phenomenon is a concern for academics. Among them are the views of monetarists, non-monetarists (Keynesians), and expectation theory. Finally, it's may be inferred that among causes of inflations are monetary, non-monetary, how expectations are pursued, such as adoption, and rational (reasonable) (A.Gunawan, 1995).

In essence, the path toward a target of economic growth is what is meant by the terms "economic impact" and "risk" of activity. In the context of the Islamic financial system, economic activity does not necessarily run without clear guidance; of course, there are pillars and fundamentals. so as to balance the process and objectives of the Islamic economic development strategy. The risks taken are not very influential on poverty or social inequality. For example, when taking the approach of justice, which is anti-usury, which is distortionary, the dominant effect is social welfare. So, the Islamic financial system is inseparable from the Islamic teaching system, comprehensively and integrally.

The compatibility of the Islamic financial system with the fitrah of mankind is a necessity (Belouafi, Bourakba, & Saci, 2015; M.Kabir Hassan and Mervyn K.Lewis, 2007).

Thus, ideally the form and framework in the implementation of the Islamic financial system provides a positive relationship with macroeconomic growth. Even though this Islamic financial system has been widely recognized internationally, it is just not yet popular among the Indonesian people. So, for Indonesia, there are many challenges to increasing the development of Islamic finance. As per OJK (Financial Services Authority) data as of January 2022, it is known that the market share of Islamic finance is still below 10%, namely 7.03% (Ojk, 2022)

On the other hand, taking a look at the non-Islamic financial system which has existed for centuries, and has been felt and determined to have symptoms of failure, including: expanding the gap between the rich and the poor, sustainable crises, economic instability, environmental damage, and exclusively playing with risk or derivative transactions and away from the real sector (Prof.Dr.Muhamad, 2019).

Muhamad continued by saying that the underlying aspects of failure occur because of the roots of economic problems, such as the roots of secularism, the basis of individualism, the dominance of materialism, the embrace of an interest-based economy, and the belief in scarcity. When inflation and economic crises develop, the cause of the issue must be identified in order to come up with useful remedy for the issue.

In the context of the application of the Islamic financial system, some countries that apply the Islamic financial system include Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Turkey, Bahrain, Egypt, Iran, Sudan, Pakistan, Malaysia, and Indonesia. It's just that there are differences in asset ownership in terms of quantity and quality. Additionally, there are nations that operate a “dual bank system”, which combines the Islamic and Conventional financial system into one banking system.

Adrian Sutawijaya's research that focuses on the impact of variable investment returns, interest rates, JUB, investment, and rupiah exchange rate on inflation in Indonesia, is one of those that pays attention to (are concerned about) inflation. Additionally, Bank Indonesia's responsibility as the country's central bank includes controlling inflation through the use of tools related to monetary policy, such as discount facilities, open market operations, and minimum mandated reserves (Sutawijaya, 2012).

Another research was conducted by Ega Rusanti et.al, with a review that focuses on how monetary policy is implemented by conventional systems and Islamic systems in order to control the rate of inflation. With her findings, the authors conclude that the channels used in controlling the inflation rate have different results. The conventional financial system with the interest rate path and the effect on the value of SBI responded by PUAB was able to control the inflation rate, in contrast to the Islamic financial system that has a low influence on inflation. It is caused by the lack of PUAS activity due to the small amount of liquid funds from the amount of incoming and distributed funds (Ega Rusanti, A.Syathir Sofyan, Syarifuddin, & Nurfiah Anwar, 2020).

Reni Mulyani also conducted research, how to combat the unstable inflation rate using Islamic methods and its strategies. With comparative elaboration between Islamic and conventional systems, it provides a basic picture of how the conventional financial system works and the Islamic financial system. There are some differences in the working patterns of conventional and Islamic financial systems in dealing with the inflation rate (Mulyani, 2020).

Based on previous research, various nuances of contrasts and discussions regarding inflation, inflation control strategies, Islamic and conventional financial systems are viewed. Generally, studies on inflation have the same rhythmic focus, which is on the influences and variables that affect inflation. There is no relevance of the Islamic financial system, which boils down from the Islamic religious teaching system in providing basic planning and inflation control strategies and significant economic growth. Departing from the research gap, the authors attempt to investigate the essence and significance of the Islamic financial system and inflation control. This study has an emphasis and concentration in finding the basic foundation of the Islamic economic system found in the Islamic financial system to control the unstable economic rate and provide holistic economic sustainability.

## **REVIEW OF LITERATURE**

### **Islamic Financial System**

The financial system is a form of order that is owned by the economy of a country, and plays a role in providing facilities for several services in the financial sector.

Financial institutions' financial service departments, as well as other money and capital markets. The banking system (depository financial institution) and system of non-bank financial institutions make up Indonesia's financial system, which is split into these two categories (Prof.Dr.Muhamad, 2019).

The evolution of the Indonesian financial system underwent changes historically, particularly throughout the time of regulatory reforms. In 1992, several laws in the area of banking and finance were passed in response to the policy of October 27<sup>th</sup>, 1998. The legal force and favorable effects of the legislative reforms on Indonesia's financial institution system are undeniable (*Himpunan Perundang-undangan perbankan Syariah*, 2009). The monetary authority and the banks that issues demand deposits are incorporated in Indonesia's monetary system, making the banking systems a component of a monetary system. With the expectation that the financial sector can positively affect macroeconomics, as evidenced by high national income, low unemployment, and stable inflation for instance (T.Gilarso, 2004).

The Islamic banking system has been acknowledged internationally when looking at historical data from the modern age; Indonesia, however, is not where it is as well-known. The growth of Islamic financial services over the past two decades, (Md Safiullah, 2021) in part due to the Muslims demand for interest-free loans (Salman & Nawaz, 2018). In addition, it is also due to the fundamental substance of the Islamic financial system, which is holistic and comprehensive, not only on the side of profit-making commercial transactions but covering all human needs from the financial side (macro and micro) (Fathurrahman, 2014). For the sake of acquiring the trust of Muslims, particularly investors, even economic acts such as financial transactions are viewed as religious requirements.

The structure of the world's financial markets and institutions is the outcome of the improvement in technology and communication that have facilitated the global financial discourse.(Antonio, 2005) It is marked by the empirical fact that there has been a flow of financial system theory, integral and innovative accelerative to financial technology, regulatory changes (deregulation), and institutional reform. All of these have had a significant impact on the global financial system. For example, the adaptation of work space and time in accordance with technology All business transactions can be done

anywhere. How does the challenge of the Islamic financial system respond to the above? Of course, this is a contestation that provides a stimulus to not isolate itself from the global realm.

The values that are brought and become trusted serve not only as a motivator for Islamic financial practitioners, but also have an impact on the success of making profits, which, of course, take religious restrictions into account. At another level, the Islamic foundation that is carried and obeyed is how Islam explains and provides direction about money. From an Islamic standpoint, money is fundamentally a medium of exchange, not as a commodity or equivalent to merchandise, so Islam views money as a flow concept (Amir, 2021). At this level, the existence of money in economic activity must always rotate and does not recognize the concept of the time value of money (A. U. F. Ahmad, 2010; Khan, 1995). The difference in instruments is that sharia principles require no guarantee of nominal value or interest rates. This is in contrast to the traditional definition of money as something valuable with value and a tool for exchange.

The basic concept of money above is final in the Islamic perspective; if there is a change, then it has fallen into the category of “time value of money”, or simply that valuable money can be taken advantage of in the absence of goods as the subject of the economy (Karim, 2008). The phenomenon of economic diseases such as economic crises is essentially triggered by money problems. The issue boils down to the value of money owed to other countries and the shift in the use of money as a commodity to be traded and profited from.

This concept has been used by and in the Islamic financial system, such as Islamic financial institutions that are either banking or non-banking. It does not cause injustice when the initial orientation in economic transactions is for the benefit and welfare of all parties. With this concept, it is increasingly clear that the conceptual basis, principles, and operating models of the Islamic financial system have an ideal appearance. This is based on the potential to make economic activities more moral (Z. Hasan, 1991).

Based on the above review, maximum efforts are needed to provide patterns and structure for a resilient financial system. Because the Islamic financial system, in general, plays an important role in creating incentives for the proper allocation of financial and real resources for the purpose of long-term sustainability, Concrete examples of a stable

financial system are: a properly functioning economy, increased investment with the identification of funding for employment (full employment), well-monitored manager performance, opportunities for trade, a selective approach to risk, and providing facilities for the exchange of goods and services (Prof.Dr.Muhamad, 2019).

### **Stability of Islamic Financial System**

Prof. Dr. Muhammad, M.Ag., said that a strong principle in the Islamic financial system is comprehensive economic growth. Not only enjoyed by a few people with financial clout or the ability to manipulate others, However, because the risks involved in transactions are sometimes taken, this system does not promote false economic growth. If a profit is obtained, it is delegated to other people or to the people; if a loss is obtained, it is delegated to other people or to the people.

So, it can be concluded, according to the Islamic perspective, that the purpose of the Islamic financial system is: a) The elimination of interest from all financial transactions and the transmission of all financial activities in accordance with Islamic principles; b) Achieving a fair distribution of income; c) Endeavour to promote economic development at all times

To achieve the main objective of the Islamic financial system, which is stability. There are new challenges and opportunities that must be promoted. These are mainstreaming to the solutive and constructive side. It is an offer to provide a theoretical basis for building a financial system based on profit sharing and risk sharing (A Mirakhor & Krichene N, 2009; Crane L.M &Leatham, 1993; Warde, 2000).

The offer of two patterns of financial systems above should continue to be scrutinized for the accuracy of the strategy and planning there of (A.El-Gamal, 2006). Although basically empirical evidence, the success of the two system patterns (namely, profit sharing and risk sharing) becomes concrete evidence (Visser, 2019a).

The problem arises with the absence of a strong component that Islamic banks have when doing profit sharing. This is due to the lack of legal framework and institutions that facilitate portfolio asset contracts. In addition, the number and variety of financial instruments used by Islamic banks is reduced.

The phenomenon of Islamic finance implies the establishment of a stable Islamic financial system. The lesson of the 1998 financial crisis is proof that a stable financial

system can shape and maintain a sustainable economy. The financial system, which is part of the economic system, has the role and function of allocating funds from surplus parties to those in deficit. The instability of the financial system will hamper economic growth and restore the economic crisis which basically requires a lot of money for the recovery of the financial crisis (Ascarya, 2017).

Indeed, financial system stability has no standard definition. As a result, several definitions emerge, namely, when the financial system is or will be threatened, the financial system has entered the path of instability. Another opinion is that “financial system stability is a condition where the economic mechanisms of pricing, fund allocation, and risk management function properly and support economic growth” (Cossiga, 2017; E.Aka, 2006; Oort, 1990).

Some people categorize the Islamic financial system as being different from the conventional financial system.(Dita Nurul Aini, 2017) Looking at the fundamentals and nature, the Islamic financial system is a stable system (D.Zahedi, 2017; Mohamed Ali Trabelsi, 2011). The Islamic financial system is a system that is strongly tied to the real economic sector (H. Ahmad, 2009; Saleem, Sági, & Setiawan, 2021).

To maintain the stability of Islamic finance, the risk sharing system pattern becomes the main factor of the integrity and existence of Islamic finance. Starting from the prohibition to do injustice from the usury-based system to finally encourage the risk sharing system, from which a direct relationship is formed between the real sector and the Islamic financial sector. This pattern produces a system and realizes the material aspects that are directly connected to the underlying assets. Financing that is carried out becomes clear and carefully identified, and in the future has the ability to survive all economic conditions (Derbali, 2015).

The condition of economic instability in Indonesia in 2008 is a lesson, there are distortions in the plural activities of mankind. In the context of the Islamic economy and financial system, these conditions are caused by the disconnection of the derivatives market with aspects of the real economy (Visser, 2019b). But with the consistency and paradigm that exists in the Islamic financial system, it can be anticipated well (Besma Hamdi, Mohamed Abdouli, Afifa Ferhi, 2019; Jahromi, 2015).

There were differences in dealing with economic instability in 2008. It is divided into two parts in terms of time: how the economy was handled between the pre-crisis and post-crisis periods. Muhammad Adam explained that at the beginning of the financial crisis, there was more focus on the discussion of micro- and macroeconomic aspects and also aspects of government regulation (Adam, 2020). In contrast to the post-2007/2008 phenomenon, the analysis of the crisis focuses on poor regulation, conflicts of interest in companies, securitization of debt-based assets, changes in the risk of financial innovation, and the growth of public and private debt due to the behavior of large players in financial markets. Among the critical analyses of the crisis, there is not enough space given to the fundamental analysis, namely the behaviors that lead to distortions (Adam, 2020; D.Zahedi, 2017).

The Islamic financial system has a basic control to deal with changing economic conditions, for example, unstable or low inflation rates. On the other hand, there are strict controls on financial activities. The prohibition of religious ethical violations such as *Riba*, *Maysir*, *Gharar* and the habit of living frugally in consumption (Janwari, 2013). On the Islamic ethics side, the values of Islamic teachings are internalized in consumption, production, and distribution activities. Behavioral discourse is the main concern and is justified by the resilience of the Islamic financial system (Nabil Maghrebi, Zamir Iqbal, 2015).

### **Basic Concepts of Inflation**

Moris Elih in his book entitled *al-Auraq al-Naqdiyah fi al-Iqtishad al-Islami Qimatuha wa Ahkamuha* quoted by Ahmad Hasan, explains that the biggest problem faced by the economy and has not been resolved until now is economic turmoil and the changing value of currency prices. As according to Islamic monetary history, inflation began when mixed dinar and dirham currencies circulated along with *fulus* as the main currency (Dr.Rozalinda, 2015).

Inflation is the phenomenon of rising prices of goods or commodities and services over a period of time (L.Brue, 2002). Campbel R et.al added that inflation is a rise in the general level of prices. This symptom of inflation is continuous and only for a moment, for example in months. If there is an increase in the price of goods in a particular month and

the month after returns to the original price of the goods/ commodities then it cannot be categorized as inflation.

Taqiyuddin Ahmad ibn al-Maqrizi states that inflation occurs when there is a general increase in prices and continues continuously. Then at that time, the stock of supplies of goods and services also experienced scarcity (scarcity). Consumers or the public have to spend more money to get these goods and services (Amalia, 2005).

Ahmad Hasan explained that based on its history, inflation began as a result of the imposition of dinars and dirhams that were not pure or had a mixture. This was followed by the next generation until now the implementation of currency in transactions when carrying out economic activities. Imam Syafi'i had warned and prohibited the government from printing impure dinars and dirhams. It is believed that this will damage the order of the financial system and the economy (A. Hasan, 2004).

Adiwarman Karim explained that Islamic inflation is not much different from conventional inflation. Furthermore, the definition of inflation is a symptom of rising prices of goods that are general and continuous. So, inflation is a symptom that occurs due to an increase in the price of goods intentionally or naturally and occurs not only in one place. The effects of this are crisis, poverty and inequality of mankind. This is if not anticipated with solutions from monetary policy (Amalia, 2005).

The causes of inflation according to al-Maqrizi are:

**Natural Inflation**, which is the occurrence of inflation due to natural causes which mankind is unable to prevent. Such inflation is caused by a fall in aggregate supply or a rise in aggregate demand. Naturally, foodstuffs and other crops become limited when natural disasters occur. It is basically a natural phenomenon and affects aggregate demand and supply. Another impact is that the government will not remain silent with the occurrence of natural disasters, large funds will be spent so that the state treasury is drastically reduced or budget deficit.

**Human Error Inflation**. inflation that occurs due to human error, for example: corruption and poor administration. In this case, the error or crime is committed by individuals and even enjoyed by individuals but the government and its people have to bear the burden. Imbalances in the economy as well as economic distribution are

caused by individuals or groups. In addition, poor administration is created by policy makers and manipulated for profit.

In addition, high taxes, caused by the evil actions of the corrupt, erode the state treasury. The state is in an unhealthy state so it needs to support the economic health of the state. Taxes are compensation for the crimes of corruptors which have implications for the increase in the price of production goods.

Furthermore, it is caused by excessive printing of money. Similar to the above case which eventually resulted in the suffering of the people with the prices of goods and services increasing. In addition, the value of the currency drastically decreased due to the worthlessness of the old money.

There are three major theories that arise from the reality of the inflation phenomenon, these theories are:

**Quantity Theory.** The essence of this quantity theory is as follows: first; inflation can only occur if there is an increase in the volume of money in circulation, both currency and demand deposits, second; the rate of inflation is determined by the rate of increase in the money supply and by people's expectations of price increases in the present.

**Keynes Theory.** The theoretical view focuses on determining the stability of economic life in effective demand. The trigger of inflation is how the quality of production and the capacity of goods produced. If the capacity of goods produced is low, the price of goods will increase. This is where human awareness to live at the limit of its economic capabilities. So as to provide sustainability to the next days. In addition, the inflation rate becomes stable.

**Structuralist Theory.** There are several things that affect the economy according to this theory, namely: a) Inelasticity of export earnings, or the point is that the value of exports is slow to grow. Among the causes are poor prices of export goods, unbalanced and responsive export production with rising prices; b) Inelasticity of domestic food supply or production

To anticipate the unstable inflation rate, there are several solutions from Islamic economic policy, namely: a) Monetary Policy; b) Fiscal Policy; c) Non-monetary policy; d) Improvement of people's behavior; e) Reforming the current monetary system and linking

the quantity of money and production 6; f) Directing spending and prohibiting excessive and useless spending;g) Prohibition of hoarding x`wealth and encouraging it to be invested; h) Increase production; i) Always maintaining the supply of basic needs

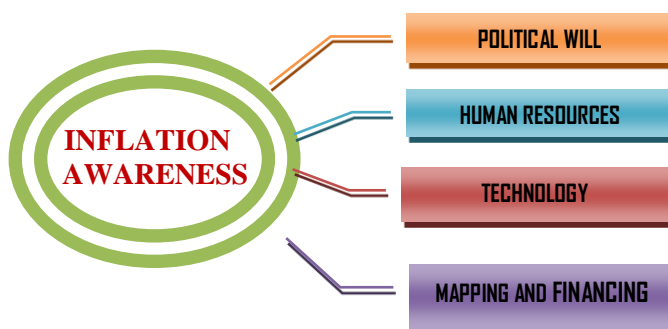
## RESEARCH METHOD

This study employs a qualitative research method with a literature study approach. Both primary and secondary data were used. Data on the Islamic financial system and inflation were directly downloaded by the author from OJK, Bank Indonesia, journals, books, and ideas from authors who have written about the Islamic financial system and inflation. The data obtained is analyzed by describing the findings related to concepts and strategies and elaborating on their significance in controlling inflation.

## RESULTS AND DISCUSSION

### Islamic Financial System Stability Paradigm in the Face of Inflation

Before reviewing how the paradigm of Islamic financial system stability in the face of inflation, it starts with understanding how the mainstreaming and framework of a stable Islamic financial system to spur inflation stability. The purpose of understanding and designing it is of course to provide initiatives and implementation of the framework to provide encouragement to the community regarding inflation that has a significant impact. This can take the form of identifying personal and household financial strategies, fostering awareness to be more productive and frugal. Positive encouragement from the government as the policy maker is always echoed instead of negative narratives such as scaring the public of recession, financial crisis, unnatural inflation and so on.



**Figure 1**  
**Inflation Awareness**

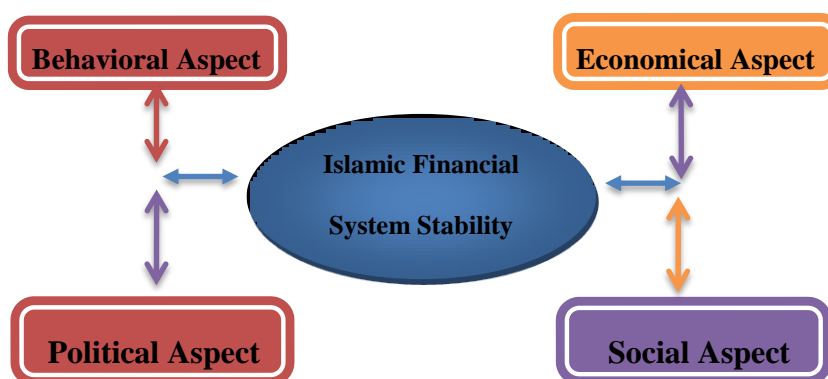
It is necessary to identify a paradigm of Islamic financial system stability in the face of economic reality, specifically inflation, based on aforementioned analysis of inflation and the stability of the Islamic financial system above. The causes of distortion and economic insecurity are triggered by four major factors, which become the problem's root and offer helpful and constructive solutions, namely behavioral, political, economic, and social factors.

The first aspect is behavior, Muslims should act in accordance with religious teachings' mandates. Through the Prophet's example of following Islamic manners, the Sunnah of the Prophet has governed actions that are always taken, whether they are economic or not. *Adab* in this instance is acting with the aim of being worshipped as a servant, not just acting well in people's views. This affects the persistence of positive behavior. Understanding and believing in Islamic manners will make it simple to regulate a variety of speculative, expectant, and illegal actions and behaviors. This affects the persistence of positive behavior. Understanding and believing in Islamic manners will make it simple to regulate a variety of speculative, expectant, and illegal actions and behaviors.

The second aspect is politics, which affects the stability of the financial system by influencing factors like the government and the central bank. Holders of policy and control are aware of their responsibilities and obligations in relation to all strategies drawn from empirical study to promote economic stability. Additionally, it's crucial to make the most of regulators' abilities to put pressure on market participants' financial transaction behavior. By maximizing the contribution of Islamic social financial institutions, regulatory agencies' support for institutions in Indonesia promotes the real sector of the economy. This will make the Islamic financial system more stable and prepared to deal with any economic circumstances. The third aspect is the economy, starting with attention to people's non-distortive economic activity, prioritizing distribution justice. One of the things that has actually been prohibited and proven to provide opportunities for injustice in economics is economic activity that contains elements of usury. However, the primary worry in predicting inflationary instability should serve as reinforcement for how to transfer risk in transactions, i.e., not to solely focus on debt as a component. Instead, actualize the resources you already have so that your economy will be stronger as a whole, specifically through increased production and the use of Islamic social finance as an instrument.

The fourth aspect is social: all individuals and groups are aware of the importance of exercising caution in economic activities. The permissibility of economic activity does not necessarily open up wide opportunities to carry out all economic activities. so that religious signs become the handle and key to success in economic activity. The existence of Islamic financial literacy reduces behavioral deviations in individuals toward financial activities, allowing behavioral control solutions to run and be implemented properly. Islam places more emphasis on helping one another so that individual problems are minimized. Starting with individual awareness will provide encouragement to several individuals, groups, or communities to realize how economic activities are allowed by Islam.

The following is the paradigm of the stability of the Islamic financial system in the face of inflation and economic crisis:



**Figure 2**  
**Islamic Financial System Stability**

The figure above is an elaboration of the financial system stability paradigm in the face of an unfavorable economy. Starting with the four main points shown in the chart above, the paradigm above offers a solution. Controlling inflation and crises starts at the root of human behavior towards the economy or natural resources. Deviations are not in accordance with the fundamental principles of the Islamic or conventional financial systems. The implementation of behavioral control through policies and regulations made by regulators and strict supervision of the implementation. In addition, how the politics of strengthening the Islamic financial system can be implemented both in terms of regulations and institutions. On the other hand, the Islamic financial system also has a social-based

system. The “*tabarru*” system can be imagined for its role and function in dealing with perpetual inflation.

## CONCLUSION

Inflation is an economic phenomenon experienced by all countries. How the inflation rate impacts both a country’s economy and the global economy is what worries nations. Inflation cannot be eliminated; it can only decide and prepare for either a stable or high inflation rate.

The values and principles of religious teachings are contained within the Islamic financial system. So, it will certainly trigger or as a stimulator of economic stability. When inflation has always been the discourse of the world economy, in fact Islam through the role and expertise of the scholars provide solutions, strategies to control inflation. In simple terms, for example, Ibn Taymiyyah and Imam al-Ghazali explicitly provide direction and advice in conducting monetary policy.

It is necessary to develop a paradigm and framework for Islamic financial stability in the face of inflation in order to address the issues caused by an unfavorable economy. Aspects of behavior, politics, economics and social are the root causes of all economic issues. These four aspects are the basis for the development of recovery from inflation and economic crisis. Sub-aspects that exist in each aspect clarify the three major aspects. Additionally, the classical scholars essentially have their own strategies and tricks to criticize or provide direction for the development of the Islamic financial system.

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