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The Norm of Rate Fixing of Islamic Banks Based on Conventional Bank Rates: Evidence from Indonesia

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Abstract

Interest rate fixing is a monetary tool used to control the money supply and hence inflation by the central bank. However, it cannot be applied to Islamic banks due to the prohibition of interest in Islam. This paper examines whether the central bank may implement rate fixing for Islamic banks, given that interest is forbidden, and the fixing of prices by the government is also generally prohibited, according to Hadith and the consensus of Islamic jurists. A documentation study was conducted to comprehend the viewpoints of classical and contemporary Islamic jurists and the National Shariah Board–Indonesian Ulama Council's fatwa. The analysis used Islamic law methodology (*usul fiqh*), which included combining the opinions of classical and contemporary Islamic jurists through the *al-jam'u* and the legal maxim approach, *"al-'adah muhakkamah"* approach to the custom practiced by Islamic banks, and the *maqasid* approach. The research findings illustrate that Islamic banks have been using rates to calculate profits as the National Shariah

Board–Indonesian Ulama Council accepts the notion of the time value of money, provided it is not utilized in loan transactions. This condition could enable the central bank to set the rates for Islamic banks, which is an effective tool for controlling the money supply and achieving economic stability, thus contributing to the realization of community welfare (*maslahah 'ammah*). It does not contradict the majority of proponents of Islamic economics who forbid the central bank to set the interest rate as a means of monetary control because Islamic banks do not use interest to make a profit, but they use transactions that are in accordance with Islamic law.

KEYWORDS *Public Welfare; Rate Fixing; Rate of Islamic Banks; Time Value of Money*

Abstrak

Penetapan suku bunga merupakan alat moneter yang digunakan oleh bank sentral untuk mengendalikan jumlah uang beredar sehingga inflasi dapat terkendali. Namun, hal ini tidak dapat diterapkan pada bank syariah karena bunga dilarang dalam Islam. Penelitian ini mengkaji apakah bank sentral dimungkinkan dapat menerapkan penentuan *rate* untuk bank syariah, mengingat bahwa bunga dilarang, dan penentuan harga oleh pemerintah juga dilarang menurut Hadis dan konsensus para ahli hukum Islam. Studi dokumentasi dilakukan untuk memahami sudut pandang para ahli hukum Islam klasik dan kontemporer serta fatwa Dewan Syariah Nasional-Majelis Ulama Indonesia. Analisis menggunakan metodologi hukum Islam (usul fikih), yang mencakup penggabungan pendapat para ahli hukum Islam klasik dan kontemporer melalui pendekatan *al-jam'u* dan kaidah hukum *al-'adah muḥakkamah* terhadap kebiasaan yang dipraktikkan oleh bank syariah, dan pendekatan *maqasid*. Temuan penelitian menunjukkan bahwa bank syariah telah menggunakan *rate* untuk menghitung keuntungan karena Dewan Syariah Nasional - Majelis Ulama Indonesia menerima konsep nilai waktu dari uang sepanjang tidak digunakan dalam transaksi pinjaman. Kondisi ini memungkinkan bank sentral untuk menetapkan tingkat *rate* untuk bank syariah, yang merupakan alat paling efektif untuk mengendalikan jumlah uang beredar, mencapai stabilitas ekonomi, sehingga berkontribusi pada terwujudnya kesejahteraan masyarakat (*maslahah 'ammah*). Hal ini tidak bertentangan dengan mayoritas pendukung ekonomi Islam yang melarang bank sentral untuk

menetapkan tingkat suku bunga sebagai alat kontrol moneter, karena bank syariah tidak menggunakan bunga untuk mencari keuntungan, tetapi mereka menggunakan transaksi yang sesuai dengan hukum Islam.

KATA KUNCI *Kesejahteraan Masyarakat; Nilai Waktu Uang; Rate Perbankan Syariah; Penentuan Rate*

Introduction

Fixing interest rates becomes a primary monetary policy tool in a conventional economic system.[1] The monetary authority is able to regulate the demand and supply of funds, thereby upholding stability in the local currency, promoting sustainable economic growth, increasing earnings and savings, maintaining low and stable inflation, and reducing unemployment.[2] Bank Indonesia, as the monetary authority of Indonesia, employs the BI-7 Day Reverse Repo Rate (BI 7DDR) to control inflation. Decreasing the BI-7 Day Reverse Repo Rate leads to lower credit interest rates, stimulating consumption and investment and ultimately contributing towards economic growth.[3]

This approach shares the same principles as those of al-Maqrizi, a classical Islamic economist, concerning monetary control. Al-Maqrizi also argues that maintaining monetary control is crucial for maintaining economic stability. According to him, one of the primary causes of

[1] Atsushi Inoue, and Barbara Rossi. "The effects of conventional and unconventional monetary policy on exchange rates." *Journal of International Economics* 118 (2019): 419-447. https://doi.org/10.1016/j.jinteco.2019.01.015 See, Falk Bräuning, and Victoria Ivashina. "US monetary policy and emerging market credit cycles." *Journal of Monetary Economics* 112 (2020): 57-76. https://doi.org/10.1016/j.jmoneco.2019.02.005

[2] Abdelkader O El Alaoui et al., "Evaluation of Monetary Policy: Evidence of the Role of Money from Malaysia," *The Quarterly Review of Economics and Finance* 74 (2019): 119–28, https://doi.org/https://doi.org/10.1016/j.qref.2019.04.005; Md Akther Uddin and Asyraf Halim, "Islamic Monetary Policy: Is There an Alternative of Interest Rate?," 2015, https://mpra.ub.uni-muenchen.de/67697/.

[3] Bank Indonesia, "Moneter," Bank Indonesia, 2020, https://www.bi.go.id/id/fungsi-utama/moneter/default.aspx.

hyperinflation and economic instability is the lack of control over the money supply in society.[4] However, it is essential to acknowledge that interest is prohibited in Islam, making it impossible to utilize interest rates as a tool to control the money circulating within society.[5] Therefore, applying the rate-fixing policy to Islamic banks is not possible. Thus, according to Rashid,[6] Ponziani and Mariyanti,[7] and Zulkhibri and Sukmana,[8] the policy of monetary control proves ineffective for Islamic banks compared to conventional banks.

This condition raises the question of whether Bank Indonesia is able to set the rate as a means to achieve economic stability from an Islamic legal point of view for Islamic banks. As the regulatory body overseeing both conventional and Islamic banks in Indonesia, Bank Indonesia has the authority to establish rates for Islamic banks, subject to approval from the National Shariah Board, the authoritative body for Islamic finance and economics in the country. However, at present, such approval has not been

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4 Khairi Zainal, "Inflation : Lessons from Al-Maqrizi," *TAFHIM: IKIM Journal of Islam and the Contemporary World* 13, no. 2 (2020): 85–113, https://tafhim.ikim.gov.my/index.php/tafhim/article/view/140; Hasna Maliha and Aam Slamet Rusydiana, "Al-Maqrizi Views on Economic Inflation," *Islamic Economic and History* 1, no. 1 (2022), https://doi.org/https://doi.org/10.58968/ieh.v1i1.189; Ridan Muhtadi and Safarinda Imani, "Al-Magrizi Inflation Theory Of Islamic Monetary Policy Implementation In Indonesia," *International Journal of Islamic Economics* 2, no. 2 (2021): 150–60.

5 Shifa Mohamed Saeed et al., "Dependency of Islamic Bank Rates on Conventional Rates in a Dual Banking System: A Trade-off between Religious and Economic Fundamentals," *International Review of Economics & Finance* 86 (2023): 1003–21, https://doi.org/https://doi.org/10.1016/j.iref.2021.09.013; Md Akther Uddin, Abu Umar Faruq Ahmad, and Fatima El Morabit, "Is Interest Rate Suitable as a Monetary Policy Instrument for OIC Countries?," in *Monetary Policy, Islamic Finance, and Islamic Corporate Governance: An International Overview* (Bingley: Emerald Publishing Limited, 2021), 113–26, https://doi.org/https://doi.org/10.1108/978-1-80043-786-920211007.

6 Abdul, M Rashid. Kabir Hassan, and Muhammad Abdul Rehman Shah. "On the role of Islamic and conventional banks in the monetary policy transmission in Malaysia: do size and liquidity matter?." *Research in International Business and Finance* 52 (2020): 101123. https://doi.org/10.1016/j.ribaf.2019.101123

7 Regi Muzio Ponziani and Tatik Mariyanti, "Islamic Banks and Monetary Policy : The Case of Indonesia," *IJIEF: International Journal of Islamic Economics and Finance* 3, no. January (2020): 121–42. https://doi.org/10.18196/ijief.2124

8 Muhamed Zulkhibri and Raditya Sukmana, "Financing Channels and Monetary Policy in a Dual Banking System : Evidence from Islamic Banks in Indonesia," *Economic Notes: Review of Banking, Finance and Monetary Economics* 9999, no. 9999 (2016): 1–27. https://doi.org/10.1111/ecno.12076

granted. Although it may align with the aim of monetary control outlined by al-Maqrizi, it contradicts the ban on interest and market intervention in Islam. The majority of Islamic jurists generally prohibit government-mandated price fixing.[9]

To date, researching the setting of rates by Islamic banks has been hindered by the challenge of the time value of money concept reconciliation, which underpins interest rates in conventional economies with Islamic principles. Meanwhile, some Islamic economic law scholars are starting to acknowledge the time value of money concept as long as it is not applied to loan transactions. Kahf asserted that although the time value of money concept is not permissible in the project evaluation, it may be used as a mental exercise.[10] Ahmad and Hassan did not refuse the time value of money concept, as Islamic doctrine does not prohibit the additional amount for loan charging used to cover the price of goods in a sale and purchase transaction that will be paid in the future. They objected to the use of the time value of money concept in a loan transaction set at the beginning.[11] In line with that, Siddique and Rahim affirmed that time value is acceptable in business and trade but not in loans. Therefore, the concept of the time value of money is prohibited, while the time value of commodities is permitted.[12] In addition, they did not object to the use of the time value of money concept in capital budgeting. They said the use of discounted value to value a project and compare it with another project to decide which one to take was allowed.[13]

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9 Agus Fakhrina, "Kebebasan Ekonomi Vis a Vis Intervensi Negara: Perspektif Ibn Khaldun," *Jurnal Penelitian* 14, no. 1 (2017): 39–54; Abdul Azim Islahi, *Economic Consepts of Ibn Taimiyah* (Leicester: The Islamic Foundation, 1996).

10 Monzer Kahf, "Time Value of Money and Discounting in Islamic Perspective: Revisited," *Review of Islamic Economics* 3, no. 2 (1994): 31–38.

11 Abu Umar Faruq Ahmad and M. Kabir Hassan, "The Time Value of Money Concept in Islamic Finance," *The American Journal of Islamic Social Sciences* 23, no. 1 (2006): 66–89.

12 Abu Umar Faruq Ahmad and M. Kabir Hassan..... See, Baehaqi, Ahmad, M. Nur A. Birton, and Fahmi Ali Hudaefi. "Time value of money in Islamic accounting practice: a critical analysis from maqāṣid al-Sharī 'ah." *Journal of Islamic Accounting and Business Research* 11.9 (2020): 2035-2052. https://doi.org/10.1108/JIABR-09-2018-0155

13 Muhammad Abubakar Siddique and Memoona Rahim, "The Concepts of Discounting and Time Value of Money in Islamic Capital Budgeting Framework: A

Based on the above studies, it can be stated that time is considered crucial in Islamic finance, particularly in sale and purchase transactions and when determining the discounted value of a project. Unfortunately, these studies have not yet explored the potential for a central bank to utilize the Islamic banks' rate as a monetary policy tool. Studies that touch on it are those done by al-Masri and Ayub and Khan. Al-Masri's research clearly stated the acceptance of the time value of money concept in Islam. Additionally, employing an interest rate table as a means to calculate the added cost of goods in future sale and purchase transactions is permitted but not in loans.[14] It has been also stated that the central bank is authorized to determine the rate of the Islamic banks.[15] Ayub and Khan suggested that due to the prohibition of interest in Islam, Islamic jurists should consider replacing interest rates with markup or profit rates, which can be applied in Islamic banks.[16]

While al-Masri and Ayub and Khan have examined the prospect of central banks fixing the rates for Islamic banks, their studies do not specifically address Indonesia as the country with the largest Muslim population in the world. Hence, the rate control possibility exploration of Islamic banks in Indonesia is an unexplored gap.

Methods

This research was conducted in Indonesia, the country with the largest Muslim population in the world. A documentation study was conducted to comprehend the viewpoints of classical and contemporary Islamic jurists and the National Shariah Board–Indonesian Ulama Council's fatwa, considering that this research took place in Indonesia. The

Theoretical Study," *Journal of Islamic Banking and Finance, Pakistan* 32, no. 1 (2015): 23–29.

[14] Rafiq Yunus Al-Maşrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtişād Al-Islāmī* (Damaskus: Dār al-Maktabī, 2009). 48.

[15] Al-Maşrī.

[16] Muhammad Ayub and M. Fahim Khan, "Evolving Monetary Economics in Islamic Perspective," *Journal of Islamic Monetary Economics and Finance* 7, no. 2 (2021): 317–40.

collected data was analyzed using Islamic law methodology (*usul fiqh*). The *al-jam'u* approach was utilized to merge the opinions of classical and contemporary Islamic jurists. Analysis of the practice of Islamic banks using rates to price their products was carried out through the legal maxim *"al-'adah muhakkamah"* approach application. Finally, the entire analysis was viewed through the lens of *maqasid* to ensure a comprehensive and balanced approach.

Time Value of Money in Islam

When discussing the time value in Islamic exchange, it is pertinent to take into account the hadith that states "no *riba* but in *nasi`ah*" or " *riba* is only in *nasi`ah*." It is apparent from this that *riba* is typically regarded as an additional amount due to deferred payment. This viewpoint contradicts the hadith of Aisha concerning Zaid ibn Arqam, which states that the price of a slave purchased with cash is 600 dinars, while one purchased on credit costs 800 dinars.[17] Although there are varying opinions among Islamic jurists regarding the legal conclusion of this hadith, they concur that the price paid on credit is higher than that of cash.

This view is also reinforced by the scholars' interpretation regarding the Quranic verse, "That is because they say: Trade is just like usury" (al-Baqarah/2:275). Some argued that the Quraisy allows usury based on the belief that any additional amount paid in the future on a loan should be permissible, as it is in credit sale and purchase transactions.[18] Ibn Abbas interpreted that the verse "whereas Allah permitteth trading" is the former addition, and "and forbiddeth usury" is the latter addition.[19] The former addition in a sale and purchase transaction, either the profit of cash sale and purchase transaction or the profit of credit sale and purchase

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[17] Muhammad ibn Idrīs Al-Syāfi'ī, *Al-Umm*, vol. 3 (Beirut: Dār al-Ma'rifah, 1990). 79.

[18] Abū Ja'far Al-Ţabarī, *Jāmi' Al-Bayān Fī Ta`wīl Al-Qur`an*, vol. 6 (Mu`assasah al-Risālah, 2000). 13.

[19] Majd al-Dīn Abū Ţāhir Muhammad ibn Ya'qūb Al-Fairūzabadī, *Tanwīr Al-Miqbās Min Tafsīr Ibn Abbās* (Libanon: Dār al-Kutub al-'Ilmiyyah, n.d.). 40.

transaction, is permitted. The latter addition, which is an addition in debt after maturity due to the inability to repay – in which the lender said to the borrower: "Pay it off or add it?" or the borrower said to the lender: "Give some time, I add it." – is prohibited. This action involves the lender offering the borrower the option to pay off the debt or add it to the existing amount. Otherwise, the borrower may request a grace period to make the payment, thus choosing to add the debt to the principal. The practice mentioned above, where a borrower accrues additional debt after defaulting on the initial amount due, is forbidden as it falls under the loan category.[20] Thus, Islam permits the merchant to increase the price in credit sale and purchase transactions above the cash price. It is in accordance with the principle of mutual consent between buyers and sellers, as mentioned in the Quran (al-Nisa/4:29), demonstrating that any additional amount due to the time lapse is not forbidden in Islam.

Classical Islamic jurists concur that time is a factor in determining the price of transactions, such as *bay al-nasi`ah* or *bay al-mu`ajjal* and *bay al-salam*.[21] *Bay al-nasi`ah* is a transaction type where the goods already exist, but payment is deferred to a future date. The seller may charge a higher price than the cash price in this transaction type. According to al-Nawawi, five dinars in cash hold the same value as six dinars in credit.[22] However, al-Kassani contended that cash is preferred over credit, indicating that they are not of equal value.[23] *Bay al-salam* is the opposite of *bay al-nasi`ah*, as in this arrangement, the price is paid upfront, and the goods are delivered in the future. Due to the deferred delivery of the goods, the buyer is likely to pay a lower price.[24] Imam Syafi'i

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20 Muhammad Rasyīd Riḍa, *Tafsīr Al-Manār*, vol. 3 (Mesir: Mesir Dār al-Manār, 1947). 113-114.

21 Ahmad and M. Kabir Hassan, "The Time Value of Money Concept in Islamic Finance"; Al-Maşrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtişād Al-Islāmī*. 25.

22 Abū Zakariyyā Muḥyiddīn ibn Syaraf Al-Nawawī, *Kitāb Al-Majmū' Syarh Al-Muhażżab*, vol. 6 (Beirut: Dār al-Fikr, n.d.). 22.

23 Ala`uddin Abū Bakr ibn Mas'ūd Al-Kāsānī, *Badā`i' Al-Şanā`i'*, vol. 7 (Beirut: Dār al-Kutub al-'Ilmiyyah, 2003). 98.

24 Al-Maşrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtişād Al-Islāmī*. 29.

said that the foods that already exist now were more valued than the foods that would exist in the future.[25]

Contemporary Islamic jurists are examining the possibility of accepting the time value of money concept in Islam despite its controversial nature in Islamic finance. Critics argued that Islamic finance cannot avoid implementing the time value of money concept in their business operations. They highlight the implementation of *murabahah* finance, where the credit price exceeds the cash price. Islamic banks utilize percentages to determine their margin and also use the interest rate as a benchmark.[26]

Al-Masri argued that the time value of money concept can be reconciled with Islamic principles. According to him, it is permissible to use interest rate tables to determine the non-cash price of goods in trade, provided they are not utilized in loan transactions. Interest is merely a label and can be substituted with other designations, such as a growth rate table and discount rate table.[27] He relies on the viewpoints of classical jurists like Imam al-Syafi'i, al-Nawawi, and al-Kassani, as cited earlier.[28] Khan contended that the time value of money concept is not generally prohibited, and he based this on the permissibility of *bay al-mu`ajjal* and *bay al-salam*. According to him, the rationale behind the elevated price in *bay al-mu`ajjal* and the reduced price in *bay al-salam* can be attributed to two conjectures: time preference and supply and demand conditions.[29]

Ahmad and Hassan argued that Islamic banks do not reject the idea of time value of money. According to Islamic law, the additional price in debt arising from goods trading, where payment will be made in the future, is not prohibited. However, the time value of money creation as a

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[25] Al-Maṣrī. 22.

[26] Abdullah Saeed, *Islamic Banking and Interest: A Study of the Prohibition of Riba and Its Contemporary Interpretation* (Netherland: Brill, 1996). 93.

[27] Al-Maṣrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtiṣād Al-Islāmī*. 48.

[28] Al-Maṣrī. 22.

[29] M. Fahim Khan, "Time Value of Money and Discounting in Islamic Perspective," *Review of Islamic Economics* 1, no. 2 (1991): 35–45.

component of loans is prohibited.[30] Siddique and Rahim emphasized that the valuing time concept is only permissible in business and trade, not in loans. Hence, the time value of money is not allowed, whereas the time value of the commodities is permitted.[31]

Over time, there has been a growing need to assess the value of a project prior to its commencement, leading some modern Islamic jurists to introduce a technique to evaluate it. Al-Masri pioneered the use of an interest rate table for this purpose. The table of interest rates is a technical mathematical tool. Therefore, its usage for project valuation is not prohibited.[32] Although Kahf rejected the use of the time value of money when valuing a project, he permitted its use as a mental operation.[33] Siddique and Rahim did not object to using the time value of money in capital budgeting. They stated that using discounted value to compare projects and determine which one will be selected is permissible. To them, the discounted value used to calculate the actual project is prohibited in Islam.[34] Thus, it can be argued that the time value of money concept is applicable only when determining the credit price in sale and purchase transactions or when evaluating and comparing projects to select one over another. However, it should not be used to determine the interest rates of loans.

Price Fixing in Islam

In general, Islam acknowledges economic freedom based on the Quran (al-Nisa/4:29), hadith, and the practices of the Muslim community. During the period of Prophet Mohammad, the Muslim community enjoyed freedom in their economic activities. The government, represented by him,

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30 Ahmad and M. Kabir Hassan, "The Time Value of Money Concept in Islamic Finance."

31 Siddique and Memoona Rahim, "The Concepts of Discounting and Time Value of Money in Islamic Capital Budgeting Framework: A Theoretical Study."

32 Al-Maṣrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtiṣād Al-Islāmī*. 48.

33 Kahf, "Time Value of Money and Discounting in Islamic Perspective: Revisited."

34 Siddique and Memoona Rahim, "The Concepts of Discounting and Time Value of Money in Islamic Capital Budgeting Framework: A Theoretical Study."

refrained from direct intervention in the market mechanism. It is narrated that the Prophet Mohammad even refused to lower the food prices when they rose in Madinah.[35] Islamic teachings emphasize the market mechanism, leading Islamic jurists to appreciate the significance of economic freedom for the Muslim community.[36] According to Ibn Qudamah, the Prophet Mohammad refused to fix prices because if he did, it would have a negative effect, such as goods would be scarce and prices would actually rise. The traders were hesitant to enter the market and chose to store their merchandise until the price rose again.[37]

Regarding price fixation, Ibn Taimiyyah categorized the opinions of Islamic jurists into two scenarios. Firstly, if the price of goods increases, a trader may choose to sell the goods at a higher price. Secondly, there is a maximum price fixation in normal circumstances. In the first scenario, adherents of the Syafi'i schools and some followers of Ahmad ibn Hanbal maintained that this trader has the freedom to act as he wishes. The government is not permitted to require him to sell at a specific price. Maliki schools believe that this action should be prohibited. On the other hand, if the trader reduces the price, there are two opinions: one is that this action should be prohibited, while the other maintains that this action is permissible.[38]

In the second scenario, the majority of Islamic scholars, except Sa'id ibn Musayyab, Rabi'ah ibn Abu Rahmah, Yahya ibn Sa'id, and Abu Hanifah, reject the establishment of a maximum price based on the Quran

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35 Hafirda Akma Musaddad, Zairy Zainol, and Selamah Maamor, "Ibn Taimiyyah's Thought on Price Regulation in Housing Affordability," *International Journal of Islamic Thought* 22 (2022), https://doi.org/https://doi.org/10.24035/ijit.22.2022.237; Ali Salman, "The Libertarian Character of the Islamic Economy," *Economic Affairs* 33, no. 1 (2013): 108–18.

36 Salman, "The Libertarian Character of the Islamic Economy."

37 Salman; Ahmad Maulidizen, "Economic Thought of Ibn Taimiyah and Relevance to the World Economic and Community Economic System," *ESENSIA: Jurnal Ilmu-Ilmu Ushuluddin* 20, no. 2 (2019): 131–46, https://doi.org/https://doi.org/10.14421/esensia.v20i2.2103; Fakhrina, "Kebebasan Ekonomi Vis a Vis Intervensi Negara: Perspektif Ibn Khaldun."

38 Taqiyyuddin Abū al-'Abbas Aḥmad ibn Abd al-Ḥalim ibn Abd al-Salām ibn Abdillah ibn Abī al-Qāsim ibn Muḥammad IbnTaimiyyah, *Majmū' Al-Fatāwā*, vol. 28 (Madinah: Majma' al-Malik Fahd li Ţabā'ah al-Muşḥaf al-Syarīf, 1995). 90-93

and hadith.[39] After analyzing this opinion, Ibn Taimiyyah suggested that maximum price fixing is permissible if it is for the good of society (*maslahah 'ammah*).[40] He said:[41]

> "If it is permissible to fix prices in order to satisfy the needs of one person, it is even more permissible to do so in order to satisfy the needs of the community because the needs of the community are more necessary than the needs of one person."

It seems that Ibn Taimiyyah's opinion can be accepted. He argued that the government is permissible to set the price if it is for the good of society.[42] According to him, price fixing by the government can be divided into two types. Firstly, prohibited or haram intervention includes government involvement in price fixing that is not in accordance with the applicable rules or does not consider the market needs as a whole. Secondly, permissible intervention includes the government's involvement in price fixing when there is an emergency where a third party is needed in the price fixing to create fairness among market participants.[43] Thus, price fixing by the government is generally prohibited in Islam because it contradicts the principle of economic freedom in Islam, but if it is done to satisfy the needs of the public, it is permissible.[44] It can be said that Islam

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39 IbnTaimiyyah.

40 Ainee Adam, "Pricing and Profiting in Copyright: Introducing an Islamic Perspective," *Queen Mary Journal of Intellectual Property* 10, no. 2 (2020): 152–78; Maulidizen, "Economic Thought of Ibn Taimiyah and Relevance to the World Economic and Community Economic System"; Musaddad, Zainol, and Maamor, "Ibn Taimiyyah's Thought on Price Regulation in Housing Affordability"; IbnTaimiyyah, *Majmū' Al-Fatāwā*.

41 Islahi, *Economic Consepts of Ibn Taimiyah*.

42 Khanifah Nurfaizah, "Government Intervention in Determining Prices According to Ibn Taimiyah's," *Airlangga International Journal of Islamic Economics and Finance* 2, no. 2 (2019): 97–104; Eva Nurul Huda and Sahabudin Sidiq, "Cooking Oil Price Control Policy in Indonesia (A Review of Ibn Taimiyah's Thoughts)," *Reinforce: Journal of Sharia Management* 2, no. 1 (2023): 30–49, https://doi.org/https://doi.org/10.21274/reinforce.v2i1.7313.

43 Lusiana Lusiana and Gita Astrid, "THE INDONESIAN GOVERNMENT'S INTERVENTION IN MARKET PRICING (CEILING PRICE AND FLOOR PRICE) REVIEWED IN ISLAMIC ECONOMIC PERSPECTIVE," *Nurani: Jurnal Kajian Syari'ah Dan Masyarakat* 20, no. 1 (2020): 57–66, https://doi.org/https://doi.org/10.19109/nurani.v20i1.6064; Nurfaizah, "Government Intervention in Determining Prices According to Ibn Taimiyah's."

44 Md Habibur Rahman and Raja Nur Afini Bt Raja Ismail, "Profit Maximization versus Price Ceiling from Maqasid Al-Shari'ah Perspective: A Wasatiyyah Approach," *The*

truly upholds the principle of economic freedom, so traders are free to set the price of their goods, but the government can set the price if it is necessary to meet the needs of the public (*maslahah 'ammah*).

Rate Set by the Central Bank

Based on Islamic jurists' opinions, the government is permitted to fix maximum prices for the public welfare. The central bank's aim in fixing rates through monetary policy, such as to preserve currency exchange and achieve economic stability, shares the same principles. However, this policy cannot be accepted due to the prohibition of interest in Islam. Rate fixing based on time value by the central bank will also evoke controversy as it may lead to the public perception that Islamic banks are no longer distinct from their conventional counterparts.

Over time, according to al-Masri, as Islamic jurists have come to accept the concept of time value of money as long as it is not used in loan transactions, it is reasonable to accept that the central bank can set the rates of margin for *murabahah* (sale and purchase transactions), the rates of *'ujrah* for *ijarah* (rental/leasing transactions), and the rates of profit for *mudarabah* and *musyakarah* (profit and loss sharing transactions).[45] Furthermore, as suggested by Hassan[46] and Ayub and Khan,[47] this is applied to prevent financial crises.

The National Shariah Board–Indonesian Ulama Council, as the religious authority in the fatwa of Islamic economics and finance in Indonesia, tacitly acknowledges the concept of the time value of money, as mentioned by the aforementioned Islamic jurist. In Fatwa No. 84/DSN-MUI/XII/2012, the National Shariah Board of the Indonesian Ulama

Journal of Management Theory and Practice (JMTP) 4, no. 1 (2023): 1–7, https://doi.org/https://doi.org/10.37231/jmtp.2023.4.1.255; Riyāḍ Manṣūr Al-Khilaifī, "Al-Maqāṣid Al-Syar'iyyah Wa Aśaruhā Fī Fiqh Al-Mu'āmalāt Al-Māliyah," *Majallah Jāmi'ah Al-Malik 'Abd Al-'Azīz: Al-Iqtiṣād Al-Islāmī* 17, no. 1 (2004): 3 – 49.

45 Al-Maṣrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtiṣād Al-Islāmī*. 49.

46 Zubair Hassan, "Profit Sharing Ratios in Mudaraba Contract," *International Journal of Banking and Finance* 7, no. 1 (2010): 1–19.

47 Ayub and Khan, "Evolving Monetary Economics in Islamic Perspective."

Council approved the use of the annuity method to claim the margin of *murabahah*, based on the practice of Islamic banks, which has become their custom (*'urf*). This statement corresponds to the viewpoint of al-Masri, as he argues that applying interest tables in Islam is deemed acceptable as long as they are not used for loan transactions.[48] Furthermore, they cite the legal maxim *"inna li al-zamani ḥissatan min al-ṡaman,"* which al-Masri referred to in accepting the concept of the time value of money in their Fatwa No. 111/DSN-MUI/IX/2017.[49] They also mandate that Islamic banks reduce the debt of *murabahah* finance paid prior to maturity based on time value, according to Fatwa No. 153/DSN-MUI/VI/2022. It is based on the principle of *maslahah* and the legal maxim "*inna li al-zamani ḥissatan min al-ṡaman*."

In their Fatwa No. 87/DSN-MUI/XII/2012, the National Shariah Board–Indonesian Ulama Council approved the use of the income smoothing method by Islamic banks in distributing profit sharing to their depositors based on the profit-sharing projection for the Islamic banks to compete with conventional banks. It is based on the Hanafi Schools' opinion. According to the Hanafi School, in a *muḍarabah* transaction, one party is allowed to stipulate a condition that they will receive a specified sum if their share of the profits exceeds a certain amount.[50]

Based on this ruling, Islamic banks used to determine the price of their products, such as profit and loss sharing-based products, leasing-based products, or sale and purchase-based products, by using a rate. Furthermore, their rate implicitly follows the rate set by conventional banks.[51] When the opportunity cost for depositors at Islamic banks

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48 Al-Maşrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtiṣād Al-Islāmī.*

49 Al-Maşrī. 25.

50 Muhammad Abubakar Siddique and Muhammad Zahid Siddique, "Intrinsically Irreconcilable: The Case against Running Musharakah as Employed by Islamic Banks," *Borsa Istanbul Review* 22, no. 5 (2022): 861–72, https://doi.org/https://doi.org/10.1016/j.bir.2022.06.003; Wahbah Al-Zuhailī, *Al-Fiqh Al-Islāmī Wa Adillatuhu* (Damaskus: Dār al-Fikr, 1985). 3939.

51 Heri Sudarsono and Miranti Aprilia Saputri, "The Effect of Financial Performance toward Profit-Sharing Rate on Mudharabah Deposit of Sharia Banking in Indonesia," *Muqtasid: Jurnal Ekonomi Dan Perbankan Syariah* 9, no. 1 (2018): 82–92;

increases due to rising interest rates, they do not hesitate to withdraw their savings. The fluctuation of Islamic banks' deposit rates has a stronger relationship than the interest rates of conventional banks' deposits, especially in countries that use a dual banking system.[52] Due to their similarity to conventional banks in terms of profit and loss sharing profiles, arbitrage activity results in the fusion of Islamic banks' rates with the global interest rate.[53] The rate of Islamic banks holds significant importance in maintaining competitiveness with conventional banks, particularly in countries that operate a dual banking system like Indonesia. As a result, it is logical for Islamic banks in Indonesia to price their products based on rates and follow the interest rates of conventional banks to remain competitive with them. [54]

The following presents data released by the Financial Services Authority of Indonesia concerning Islamic banks' equivalent rates in Indonesia during 2022 (See Table 1):[55]

Kumara Adji Kusuma et al., "Profit Sharing Ratio Determination of Mudharabah Contract in Indonesia Islamic Banks," *Opcion* 34, no. 85 (2018): 2804–2813.

52 Ahmet F Aysan et al., "Religiosity versus Rationality: Depositor Behavior in Islamic and Conventional Banks," *Journal of Comparative Economics* 46, no. 1 (2018): 1–19, https://doi.org/https://doi.org/10.1016/j.jce.2017.03.001; Céline Meslier, Tastaftiyan Risfandy, and Amine Tarazi, "Dual Market Competition and Deposit Rate Setting in Islamic and Conventional Banks," *Economic Modelling* 63 (2017): 318–33, https://doi.org/https://doi.org/10.1016/j.econmod.2017.02.013.

53 A.S.M.S. Azad et al., "Can Islamic Banks Have Their Own Benchmark?," *Emerging Markets Review* 35 (2018): 120–36, https://doi.org/https://doi.org/10.1016/j.ememar.2018.02.002.

54 Beng Soon Chong and Ming-Hua Liu, "Islamic Banking: Interest-Free or Interest-Based?," *Pacific-Basin Finance Journal* 17, no. 1 (2009): 125–44, https://doi.org/https://doi.org/10.1016/j.pacfin.2007.12.003; E H Ergeç and B G Arslan, "Impact of Interest Rates on Islamic and Conventional Banks: The Case of Turkey," *Applied Economics* 45, no. 17 (June 1, 2013): 2381–88, https://doi.org/10.1080/00036846.2012.665598; Rosylin Mohd Yusof, Mejda Bahlous, and Hamza Tursunov, "Are Profit Sharing Rates of Mudharabah Account Linked to Interest Rates? An Investigation on Islamic Banks in GCC Countries," *Jurnal Ekonomi Malaysia* 49, no. 2 (2015): 77–86, https://doi.org/http://dx.doi.org/10.17576/JEM-2015-4902-07; Harun Ercan, Ilhami Karahanoglu, and György Walter, "Is Islamic Banking in Turkey Really Interest-Free?," *Society and Economy* 43, no. 4 (2021): 391–405; Saeed et al., "Dependency of Islamic Bank Rates on Conventional Rates in a Dual Banking System: A Trade-off between Religious and Economic Fundamentals."

55 Otoritas Jasa Keuangan, *Statistik Perbankan Syariah* (Jakarta: Otoritas Jasa Keuangan, 2023), https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/statistik-perbankan-syariah/Pages/Statistik-Perbankan-Syariah---Februari-2023.aspx.

Table 1 *Equivalent rates of Islamic banks in Indonesia during 2022*

	Muḍarabah Giro	*Muḍarabah* Deposits	*Muḍarabah* Savings	Profit and Loss Sharing based Finance	*Murabaḥah* Finance	*Ijarah* Finance
January	2.02	3.32	1.56	8.28	10.33	9.63
February	2.04	3.15	1.53	8.11	10.25	9.45
March	2.34	3.19	1.59	8.12	10.18	9.23
April	2.30	2.91	1.58	8.02	10.10	9.19
May	2.32	3.04	1.58	7.97	10.00	9.16
Juny	2.33	2.94	1.46	7.91	9.96	9.20
July	2.32	2.87	1.43	7.82	9.88	9.43
Agust	2.29	3.03	1.50	7.71	9.78	9.07
September	2.13	2.98	1.50	7.81	9.70	8.82
October	2.06	3.26	1.54	7.85	9.71	8.68
November	2.18	3.53	1.61	7.86	9.63	8.70
December	3.13	3.86	1.76	7.92	9.58	8.68

Source: Writer's Compilation 2023

This table indicates that Islamic banks traditionally employed a rate to determine their profits, showing that it is a customary practice. It is reasonable for the National Shariah Board–Indonesian Ulama Council to approve their use of the annuity method to calculate their *murabahah* margin in accordance with custom.

According to Islamic law methodology, custom may serve as a legitimate foundation. Consequently, according to al-Masri, Ayub, and Khan, the central bank may establish the rate for Islamic banks as long as banking transactions are compliant with Islamic law.[56] As stated by Ibn Taimiyyah, setting the rate of Islamic banks is as important as the prices of basic needs or maybe even more because the rate has an essential role in

[56] Al-Maṣrī, *Al-Ribā Wa Al-Ḥasm Al-Zamanī Fī Al-Iqtiṣād Al-Islāmī*; Ayub and Khan, "Evolving Monetary Economics in Islamic Perspective."

the monetary system to controlling the money supply so that inflation can be controlled, the economy can be stable, and public welfare (*maslahah ‘ammah*) can be realized. It is important to note that the rate set by the central bank is the maximum rate, allowing Islamic banks to play the rate at a lower rate when pricing their products.

At first glance, this perspective may seem contrary to the beliefs of the majority of proponents of Islamic economics, who prohibit the central bank from establishing interest rates. However, this is not the case as Islamic banks do not employ interest to generate profits. Otherwise, they engage in transactions that conform to Islamic law. The provided rate is not an interest rate but a margin rate for products based on sale and purchase, an *‘ujrah* rate for leasing-based products, and a profit rate for profit and loss sharing-based products. As a result, there is no interest involved. However, this will enable people to see that Islamic banks are no longer dissimilar to conventional banks. Therefore, it is necessary to widely disseminate education on the monetary system so that they can acquire a broader understanding of it.

Conclusion

If setting the price of basic necessities is important, setting the rate is even more important because it relates to inflation, economic stability, and public welfare (*maslahah 'ammah*). It does not contradict the majority of proponents of Islamic economics, who forbid the central bank to set the interest rate as a means of monetary control because Islamic banks do not use interest to make a profit, but they use transactions that are in accordance with Islamic law. It means that the provided rate is not an interest rate but a margin rate for products based on sale and purchase, an *’ujrah* rate for leasing-based products, and a profit rate for profit and loss sharing-based products. As a result, there is no interest involved. This finding can be used as a basis to develop the Islamic economic law that time has parts of price, so the use of rate is not controversial. In the future, researchers should examine the method of setting the rate of Islamic banks that can be used as a monetary control tool and not just a copy of the interest rate concept in the conventional economy by the central bank.

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