

The Application of Money Market and Capital Market in Islamic Economic Perspective

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Article Info	ABSTRACT
<p>Keywords: Money Markets Capital Markets Islamic Economics</p>	<p>The money market is a place for short-term financial instrument transactions that function to meet the liquidity needs of economic actors, while the capital market provides long-term instruments such as stocks and bonds that support investment and sustainable economic growth. In Islamic economics, the presence of the money market and sharia capital market provides investment alternatives that are in accordance with sharia principles, avoiding elements of usury, gharar, and maysir, and emphasizing justice and transparency. This article also reviews the differences in characteristics, mechanisms, and instruments between conventional and sharia markets, and highlights the importance of implementing the principles of fiqh muamalah in the development of sharia financial markets in Indonesia. This study uses a literature study method by examining various relevant sources to deepen the study of the money market and capital market from an Islamic economic perspective, so that it can provide understanding and references for the development of sharia finance in the future.</p>
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INTRODUCTION

Broadly speaking, financial markets can be categorized into two main types: money markets and capital markets, which are divided based on the maturity of the financial instruments traded in them. The first type is the money market, which trades financial instruments with short maturities, usually less than one year. This market serves as a means to meet the short-term liquidity needs of various economic actors, such as companies, governments, and banks. The second type is the capital market, which is a market for long-term financial instruments with maturities of more than one year, such as stocks and bonds. This capital market plays an important role in providing long-term funds that can be used for investment and business development, thus supporting sustainable economic growth. Thus, the division of financial markets into money markets and capital markets is very important because each has different characteristics, functions, and roles in the financial system and the economy as a whole.

Nowadays, the flow of money and capital is rarely linked to the needs of international trade transactions and the need for capital for long-term investment. But the conventional economy sees the money market and the capital market as a means of speculative short-term investment in order to obtain quick and large profits (gain). In the midst of the decline,

scandals and risks that befell the conventional money and capital markets, the world began to look at Islam as an alternative. Preceded by the establishment of Islamic banks and Islamic insurance institutions in Islamic countries including in the West itself, now efforts to implement and socialize Islamic capital markets are increasingly vigorous (Ramadhan, 2016).

The money market is a meeting in the abstract market to obtain demand and supply of funds (money supply-demand) for the short term. In the money market, foreign exchange (forex) is needed to pay for export activities, imports and foreign currencies. Money market players are usually; banks, pension funds, insurance companies, government agencies, large companies, financial institutions, leasing, pawnshops, foundations, or individuals. The funds are needed to meet the needs of working capital, short-term finance, liquidity, clearing. For investors to benefit from interest rates, capital gains, returns, profits, and even speculation (Insani et al., 2023).

In Law No. 21/2011 of OJK, it is emphasized that the capital market is a series of securities sales and public offering activities involving individuals or companies that own capital and those that need it (Wardoyo, 2016). Law No. 4 of 2023 on Strengthening and Developing the Financial Sector (Article 1 point 12) emphasizes that the capital market is a slice of the financial sphere that has a close relationship with securities and investment offerings and transactions issued by an institution (Rinaldy, 2018). More concisely, the capital market is a meeting place between capital owners or investors and parties who trade investment instruments and other securities (Manik, 2024). The capital market is an institution that is in the scope of finance, where its activities carry out securities trading activities carried out by an institution concerned (Yuliani et al., 2020). So it can be concluded that the capital market is a means of expanding the ownership assets of individuals or companies that have capital to the public or investors who want to invest their financial assets in the form of stocks, bonds, and securities at a certain agreed period of time (Dewi Lubis et al., 2024).

In Islam, investment is a *muamalah* activity that is highly recommended, because by investing the assets owned become productive and also bring benefits to others. The Quran itself strictly prohibits hoarding activities (*iktinaz*) against the assets owned. (QS. 9:33). To realize the call for investment, then it must be created a means of investing. Many people choose to invest their capital in the form of investment. One form of investment is to invest their wealth in the money market and Islamic capital market. With the presence of the money market and Islamic capital market, it provides an opportunity for Muslims and non-Muslims who want to invest their funds in accordance with sharia principles which provide peace and confidence in halal transactions (Tuhfa, 2017).

BAPEPAM-LK (Capital Market Supervisory Agency-Financial Institutions) and the National Sharia Council-Majelis Ulama Indonesia (DSNMUI) officially launched the Islamic capital market on March 14-15, 2003 while signing a memorandum of understanding with the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI). Although it was officially launched in 2003, the Islamic capital market instrument was present in Indonesia in 1997 (Arafah, 2022).

METHOD

Where, the research results are described using words and supported by relevant sources. The references and related reading sources in this paper are collected using the literature review research method. Where, this research is carried out by collecting and examining every source obtained related to the topic of discussion, namely the money market and capital market in the perspective of Islamic economics. Through the sources that have been collected, the author deepens and sharpens the discussion so as to support the novelty of sources for other parallel studies.

RESULTS AND DISCUSSION

Islamic Money Market and Capital Market

The Islamic money market is an Islamic money market (PUAS or money market for Islamic banks) that trades Islamic securities with short maturities (less than 1 year). Islamic money market is a market that trades securities issued in connection with the placement or lending of money in the short term (one year or less than one year) to mobilize short-term sources of funds and manage liquidity efficiently, can provide profit and in accordance with sharia. The goods traded in this market are pieces of paper in the form of debt securities or promises to pay a certain amount of money at a certain time. The securities traded in the money market vary, can be securities with a term of less than one year to securities with a term of five years, but in fact most of the financial assets traded in the money market are securities with a term of less than one year.

The sharia capital market can be defined as activities in the capital market as regulated in the Capital Market Law that are not contrary to sharia principles. Therefore, the Islamic capital market is not a separate system from the capital market system as a whole. Islamic capital market is simply a capital market that applies sharia principles in economic transaction activities that are free from prohibited matters. In general, Islamic capital market activities have no difference with conventional capital markets, but there are several special characteristics of Islamic capital markets, namely products and transaction mechanisms that do not conflict with sharia principles. An Islamic capital market is a capital market whose entire mechanism of activity, especially regarding issuers and types of securities traded, is in accordance with sharia principles. Sharia principles are principles based on Islamic sharia which are determined through the fatwa of DSN MUI. The application of sharia principles in the capital market is certainly based on the Koran as the highest source of law and the hadith of the Prophet Muhammad SAW. Furthermore, from these two sources of law, the scholars interpreted what was later called the science of *fiqh*. One of the discussions in the science of *fiqh* is the discussion of *muamalah*, which is the relationship between fellow humans related to commerce. Based on this, Islamic capital market activities are developed on the basis of *muamalah fiqh*. There is a rule of *fiqh muamalah* which states that basically all forms of *muamalah* may be carried out, unless there is evidence that forbids it. This concept is the principle of the Islamic capital market in Indonesia (Lasmi Wardiah, 2017).

Differences between Islamic and Conventional Capital Markets

Basically, the Islamic money market and the conventional money market have several functions in common, including as a liquidity regulator. If a bank has excess liquidity, it can use money market instruments to invest its funds and if it lacks liquidity, it can issue instruments that can be sold to obtain cash. However, there are fundamental differences between conventional money markets and Islamic money markets, namely:

- a. First: On the issuance mechanism. In the conventional market, the instruments issued are instruments that are sold at a discount and are based on interest calculations. While the Islamic money market is more complex and closer to the mechanism of the capital market, which contains investment, cooperation and others, namely *mudharabah*, *musyarakah*, *qard* and *wadiah*. But in contrast to the capital market that sells securities with a long term, the Islamic money market is only struggling in the funding sector with money in the short term or less than one year. A permissible interbank money market is one that does not use interest and the contracts that are recommended are *mudharabah*, *musyarakah*, *qardh*, *wadiah* or *sharf*, and ownership of market instruments can only be transferred once. However, in reality, the contracts that are often used are *mudharabah* and *wadiah* only. Meanwhile, contracts such as *gardh* and *sharf* are rarely used. This happens because the Islamic bank instruments provided in this money market are in the form of IMA (Interbank Investment Certificates), *Mudharabah* Money Market Securities, and SWBI (Bank Indonesia *Wadiah* Certificates).
- b. Second: The nature of the instrument, the nature of conventional money market instruments are securities that represent money where one unit has an obligation to another unit. Whereas Islamic financial instruments must be supported by assets, asset projects and sale and purchase transactions behind them. Money market participants consist of: Banks, Foundations, Pension Funds, Insurance Companies, Large Companies, Government Institutions, Other Financial Institutions, Individuals of the community. Because the purchase of these securities is only short-term, most transactions are carried out on the basis of trust alone, because securities in the money market without certain guarantees (Ismawati, 2019).

Differences between Islamic and Conventional Capital Markets

There are two main differences in the Islamic capital market: the Islamic index and the Islamic capital market itself. The Islamic index shows the movement of share prices of issuers categorized as sharia-compliant, while the Islamic capital market is a normal capital market institution that is implemented based on "sharia principles."

Conventional Stock Index and Islamic Stock Index

Islamic indices can be issued not only by Islamic capital markets but also by conventional capital markets. Even before the establishment of Islamic capital market institutions in a country, the local stock exchange, which of course is conventionally based, first issued an Islamic index. In the Jakarta Stock Exchange, for example, PT Bursa Efek Jakarta

(BEJ) in collaboration with PT Danareksa Investment Management (DIM) launched the Jakarta Islamic Index (JII) before the Islamic capital market itself was inaugurated.

The fundamental difference between the conventional index and the Islamic index is that the conventional index includes all stocks listed on the stock exchange by ignoring the halal haram aspect, which is important for the listed issuer's shares (listing) in accordance with applicable regulations (legal). As a result, it is not a problem if there are issuers who sell their shares on the stock exchange engaged in business sectors that are contrary to Islam or that have a destructive nature of community life. For example, in early 2003, in Australia there was an embroidery house (prostitution) that entered the local stock exchange.

On the Jakarta Stock Exchange (BEJ), according to Karim (2002) of the 333 listed issuers 236 stocks are classified as sharia compliant. While the remaining 59 stocks are classified as "haram" or not in accordance with sharia principles, such as banking stocks, liquor and cigarettes. The remaining 34 stocks are classified as *subhat* such as hotel industry stocks and four *mudharat* stocks.

From the above description, a dividing line can be drawn between an Islamic index and a conventional index. First, if the Islamic index is issued by an institution in the conventional capital market, then the calculation of the index is based on stocks that are classified as meeting sharia criteria while the conventional index includes all stocks listed on the stock exchange. Second, if the Islamic index is issued by a sharia capital market institution, then the index is based on all stocks listed in the sharia capital market that have previously been selected by the manager.

Instrument

In the conventional capital market, the instruments traded are securities such as stocks, bonds, and derivative instruments such as options, rights, warrants, and mutual funds. Shares are a letter of participation or ownership of a person or entity in the company that issues the shares, while bonds are proof of debt recognition from the company to the bondholders concerned. Options are derivative products of securities (stocks and bonds). Options as a securities product will give the holder (buyer) the right to buy or sell a certain amount of a certain financial asset, at a certain price, and within a certain period of time. Rights are securities that give old shareholders the right to buy new shares that will be issued by the issuer at a certain proportion and price. Warrants are derivatives of common shares that are long-term in nature and give their holders the right to buy shares on behalf of a certain price. Meanwhile, mutual funds are investment companies that manage investments in stocks, bonds, and others, by issuing separate securities addressed to investors, so that investors no longer need to invest directly in various securities traded on the stock exchange but simply buy securities issued by the mutual fund.

In the Islamic capital market, the instruments traded are shares, Islamic bonds and Islamic mutual funds, while options, warrants and rights are not among the permitted instruments. Shares in the Islamic capital market are the same as shares in the conventional capital market. The only difference is that the shares traded in the Islamic capital market must come from issuers that meet sharia criteria as mentioned in the discussion of Islamic indices.

Meanwhile, Islamic bonds are different from conventional bonds. Conventional bonds are a type of financial product that is not justified in Islam because it uses interest as its attraction. According to Muhammad al-Amin, Islamic bond instruments can be issued using the principles of *Mudharabah*, *musyarakah*, *ijarah*, *istisna'*, *salam*, and *murabahah* so that from this principle the name of Islamic bonds depends on which principle the issuer uses.

In Indonesia, the issuance of sharia bonds was pioneered by Indosat by issuing Indosat *Mudharabah* Sharia Bonds worth Rp 100 billion in October 2002. These bonds were oversubscribed twice so Indosat increased the amount of bonds offered to Rp 175 billion. Indosat's move was followed by Bank Muamalat and Bank Syariah Mandiri (BSM) this year. In the *Mudharabah* Syariah Bond concept, the issuer issues long-term securities to be offered to investors and is obliged to pay income in the form of profit sharing or margin fees as well as the principal of the bond debt at maturity to the bondholders. In this case, the issuer functions as a *mudharib* while the bondholder investors as *shahibul mal*. Meanwhile, issuers that issue Islamic bonds must meet requirements such as the requirements of issuers that are included in the Islamic index criteria. The third instrument traded in the Islamic capital market is the Islamic Mutual Fund. Sharia Mutual Fund is a mixed investment vehicle that combines sharia stocks and bonds in one product managed by an investment manager. The investment manager offers Islamic Mutual Funds to interested investors, while the funds obtained from these investors are managed by the investment manager to be invested in Islamic stocks or bonds that are considered profitable.

Transaction mechanism

In the context of the Islamic capital market, according to Alhabshi, ideally the Islamic capital market should not contain *ribawi* transactions, doubtful transactions (*gharar*), and shares of companies engaged in *haram* fields. Islamic capital markets must be free from unethical and immoral transactions, such as market manipulation, transactions that utilize insiders (insider trading), selling shares that are not yet owned and buying them later (short selling). Meanwhile, Obaidullah suggests ethics in the Islamic capital market, namely everyone is free to make a contract (freedom contract) as long as it is still in accordance with sharia, clean from elements of *usury* (freedom from *al-riba*), *gharar* (excessive uncertainty), *al-qimar* / gambling (gambling), *al-maysir* (unearned income), manipulation and price control (price control and manipulation), *darar* (detriment) and does not harm the public interest (unrestricted public interest), also the price is formed fairly (entitlement to transact at fair price) and there is accurate, adequate and accurate information (entitlement to equal, adequate, and accurate information). Irfan Syauqi explained about speculation, first, speculation is essentially not an investment activity, second, speculation causes an increase in income for a group of people without contributing anything either positive or productive, third, speculation is the source of the financial crisis, and fourth, speculation comes from a "get rich quick" mentality.

In the transaction mechanism of Islamic capital market products, Irfan Syauqi suggested that the purchase and sale of shares should not be done directly. In the conventional capital market, investors can buy or sell shares directly by using the services of a broker or broker.

This situation makes it possible for speculators to play with prices. As a result, changes in share prices are determined by market forces rather than the intrinsic value of the shares themselves. According to Irfan Syauqi, this is prohibited in Islam. For this reason, in the stock trading process, the issuer gives authority to an agent on the trading floor, then the agent is tasked with bringing together the issuer with potential investors but not to sell and buy shares directly. Then the shares are sold / bought because the shares are available and based on the first come - first served principle. In the trading of Islamic bonds, according to Muhammad Gunawan, discount prices or premium prices that are commonly applied in conventional bonds should not be applied. The principle of Islamic bond transactions is *alhawalah* (transfer service or transfer of receivables with profit-sharing coverage), so the sale and purchase of Islamic bonds can only be at the nominal price of bond maturity repayment. As for the trading of Islamic Mutual Funds, investment managers offer buyers short-term Islamic Mutual Funds in the money market and long-term Islamic Mutual Funds in the stock market. For example, Danareksa Syariah allocates 80% of its investments in stocks and 20% in the money market or debt securities. The profits obtained by investors in this Sharia Mutual Fund are highly dependent on how the investment manager invests the funds he manages (Sri, 2016).

CONCLUSION

Financial markets are divided into two main types, namely money markets and capital markets, each of which has different characteristics, functions and roles in the financial system. The money market serves as a means of meeting short-term liquidity needs by trading financial instruments with maturities of less than one year. Meanwhile, the capital market provides long-term financial instruments such as stocks and bonds, which play an important role in supporting investment and sustainable economic growth. In the perspective of Islamic economics, the presence of Islamic money market and capital market provides investment alternatives that are in accordance with sharia principles, thus not only providing peace of mind for Muslim investors, but also guaranteeing halal and fair transactions. Islamic money markets and capital markets apply the principles of *muamalah*, such as avoiding *usury*, *gharar*, and *maysir*, and emphasizing fairness, transparency, and sustainability. The instruments and mechanisms used are also different from the conventional system, as they are based on sharia contracts such as *Mudharabah*, *musyarakah*, *qardh*, and *wadiah*. The main difference between the Islamic and conventional capital markets lies in the selection of issuers and instruments traded, where the Islamic capital market only trades securities that comply with sharia principles as determined by DSN-MUI. In addition, the Islamic capital market also has an Islamic stock index that only includes stocks from issuers that meet halal criteria. Thus, the development of Islamic money market and capital market in Indonesia is expected to increase financial inclusion, provide ethical investment options, and support sustainable national economic growth.

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