HIMPUNAN MAHASISWA ISLAM

CISFED

CENTER FOR ISLAMIC STUDIES IN FINANCE, ECONOMICS, AND DEVELOPMENT

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Telaah Kritis Sistem Ekonomi

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Professional Experience

- Owner & CEO
- Board of Director
- Board of Director
- Team Leader
ASIA & CIS

Others

- Assessor & Head, Management Selection Team
- Advisory Board

Education

- MBA in International Banking & Finance
- MA in Economics
- First Degree

Professional Qualification

- ACSI, Chartered Institute for Securities & Investment
- CDIF, Chartered Institute of Management Accountants

Scholarly Experience

- ✓ Chairman CISFED
- ✓ Lecturer
- ✓ Correspondent Board

Key Points

- ❑ Types of Economic Systems
- ❑ Central Banks
- ❑ Inflation
- ❑ Measures of Economic Data
- ❑ Gross Domestic Product
- ❑ Economic Growth
- ❑ Balance of Payments
- ❑ Unemployment

TYPES OF ECONOMIC SYSTEMS

State-Controlled Economies

- **A state-controlled economy is one in which the state (in the form of the government) decides what is produced and how it is distributed.**
- **The best-known example of a state-controlled economy was the Soviet Union throughout most of the 20th century.**

MARKET ECONOMIES

- In a market economy, the forces of supply and demand determine how resources are allocated.
- Businesses produce goods and services to meet the demand from consumers.
- If there is oversupply, the price will be low and some producers will leave the market. If there is undersupply, the price will be high, attracting new producers into the market.
- There is a market not only for goods and services, but also for productive assets, such as capital goods (eg, machinery), labour and money. For the labour market, it is the wage level that is effectively the ‘price’, and for the money market it is the interest rate.

MIXED ECONOMIES

- A mixed economy combines a market economy with some element of state control. The vast majority of economies are mixed to a lesser or greater extent.
- While most of us would agree that unsuccessful companies should be allowed to fall, we generally feel that the less able in society should be cushioned from the full force of the market economy.
- In a mixed economy, the government will provide a welfare system to support the unemployed, the infirm and the elderly, in tandem with the market-driven aspects of the economy.
- Governments will also spend money running key areas such as defence, education, public transport, health and police services.

- Governments raise finance for this public expenditure by:

1. Collecting taxes directly from wage-earners and companies;
2. Collecting indirect taxes (eg, sales taxes on pertol, cigarretes and alcohol)
3. Raising money through borrowing in the capital markets.

OPEN ECONOMIES

- In an open economy there are few barriers to trade or controls over foreign exchange.
- Although most western governments create barriers to protect their citizens against illegal drugs and other dangers, they generally have policies to allow or encourage free trade.

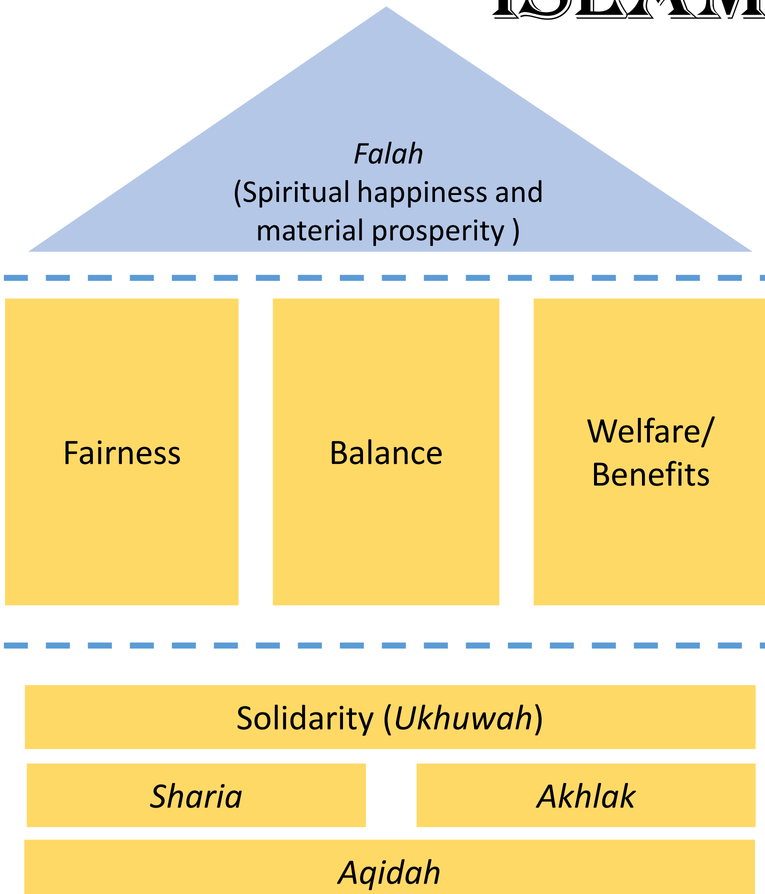
Islamic Economy

- ✓ Beberapa istilah terkait ekonomi Islam:

"An *Islamic economy* is one where everyone who is able works hard, using knowledge to combine with their own labor and the resources provided by the Creator, to produce goods and services for society. Economic, social, and political affairs are conducted with the goal of removing barriers to the progress of all humans and in full compliance with rules, including those governing property rights, market behavior, exchange and trade , and contracts and trust." *(Mirakhor & Askari, 2017:235)*

"… It is based on a religious worldview which strikes at the roots of secularism and value neutrality. To ensure the true well-being of all individuals, irrespective of their sex, age, race, religion or wealth, *Islamic economics* does not seek to abolish private property, as was done by communism, nor does it prevent individuals from serving their self-interest. It recognizes the role of the market in the efficient allocation of resources, but does not find competition to be sufficient to safeguard social interest. It tries to promote human brotherhood, socio-economic justice and the well-being of all through an integrated role of moral values, market mechanism, families, society, and 'good governance.' This is because of the great emphasis in Islam on human brotherhood and socio-economic justice." *(Chapra, 2008).*

ISLAMIC ECONOMY



Source: OJK, Roadmap of Islamic Banking 2015-2019 (taken from Ministry of Finance, SUKUK NEGARA: Shariah-Compliant Financial Instrument, 2015).

Basic Concept of *Islamic Economy*

essential goal and success in economy is achievement of prosperity, which includes (spiritual) happiness and (material) prosperity at individual and society levels.

The three pillars of *Islamic economics*:

1. Fair economic activity by avoiding overexploitation, excessive hoarding, unproductive, speculative, and arbitrariness.
2. The balance between real and financial activities, risk and return management, social and commercial activities, spiritual and material aspects, and principle of benefits and environmental sustainability.
3. Orientation of benefits which is to protect the safety of religious life, process of regeneration, as well as protection of safety of life, property and intellectual.

The foundation of *Islamic economics* :

1. *Aqidah* which raises awareness that every human activity has divinity accountability causing integrity in line with principles of good corporate governance and market discipline.
2. *Shariah* rules (*Muamalah* law in economics) that guide economic activities and always *Sharia* compliant.
3. *Akhlak* (morals) that guide economic activity always promote kindness as a way of achieving the goal.
4. Putting governance in context of business relations of solidarity (*Ukhuwah*) for mutual success.

CENTRAL BANKS

- Traditionally, the role of government has been to manage the economy through taxation and economic and monetary policy, and to ensure a fair society by the state provision of walfare and benefits to those who meet certain criteria, while leaving business relatively free to address the challenges and opportunities that arise.
- Governments can use a variety of policies when attempting to reduce the impact of fluctuations in economic activity.
- Collectively these measures are known as stabillisation policies and are categorised under the broad headings of fiscal policy and monetary policy.
- Fiscal policy involves making adjustments using government spending and taxation, while monetary policy involves making adjustments to interest rates and the money supply.
- Governments implement their economic policies using their central bank, and a consideration of their role in this implementation is noted below.

THE ROLE OF CENTRAL BANKS

Central banks operate at the very centre of a nation's financial system. They are public bodies but, increasingly, they operate independently of government control or political interference. They usually have the following responsibilities:

- Acting as banker to the banking system by accepting deposits from, and lending to, commercial banks.
- Acting as banker to the government.
- Managing the national debt.
- Regulating the domestic banking system.
- Acting as lender of last resort to the banking system in financial crises to prevent the systemic collapse of the banking system.
- Setting the official short-term rate of interest.

- **Controlling the money supply.**
- **Issuing notes and coins.**
- **Holding the nation’s gold and foreign currency reserves.**
- **Influencing the value of a nation’s currency through activities such as intervention in the currency markets.**
- **Providing a depositors’ protection scheme for bank deposits.**

FEATURES OF THE MAIN CENTRAL BANKS

United States: Federal Reserve (the Fed)

- The Federal Reserve System in the US dates back to 1913. The Fed, as it is known, comprises 12 regional Federal Reserve Banks, each of which monitors the activities of, and provides liquidity to, the bank in its region.

- As lender of last resort to the US banking system, the Fed has, in recent years, rescued a number of US FIs and markets from collapse.

Europe: Bank of England (BoE)

- The UK's central bank, the Bank of England, was founded in 1694, but it wasn't until 1997, when the BoE's Monetary Policy Committee (MPC) was established, that the Bank gained operational independence in setting UK monetary policy, in line with that of most other developed nations.

- In addition to its short-term interest-rate-setting role, the Bank of England also assumes responsibility for all other traditional central bank activities, with the exception of managing the national debt and providing a depositors' protection scheme for bank deposits. Supervising the banking system was the responsibility of the regulatory agency, but this came under the control of the central bank from April 2013.

European Central Bank (ECB)

- Based in Frankfurt, the ECB assumed its central banking responsibilities upon the creation of the euro, on 1 January 1999.
- The ECB is principally responsible for setting monetary policy for the entire eurozone, with the sole objective of maintaining internal price stability.

Bank of Japan (BOJ)

- The Bank of Japan began operating as Japan's cental bank in 1882 and, like the Bank of England, gained operational independence in 1997.
- The Bank is responsible for the country's monetary policy, issuing and managing the external value of the Japanese yen, and acting as lender of last resort to the Japanese banking system.

INFLATION

CREDIT CREATION

- Most of what we buy is not paid for using cash. We find it more convenient to pay by card or cheque.
- It is fairly easy (subject to the borrower's credit status) to buy something now and pay later, for example by going overdrawn, using a credit card or taking out a loan.
- Loans will often be for more substantial purchases, such as a house or a car. Buying now and paying later is generally referred to as purchasing goods and services 'on credit'.
- The banking system provides a mechanism by which credit can be created. This means that banks can increase the total money supply in the economy.

THE IMPACT OF INFLATION

- **Inflation** is a persistent increase in the general level of prices.
- **There are a number of** reasons **for prices to increase, such as** excess demand in the economy, scarcity of resources and key workers or rapidly increasing government spending.
- **Most western governments seek** to control inflation at a level of about 2-3% per anum without letting it get too high (or too low).
- **As well as experiencing inflation,** economies can also face the problems presented by deflation.
- **Deflation is** defined as a general fall in price levels.

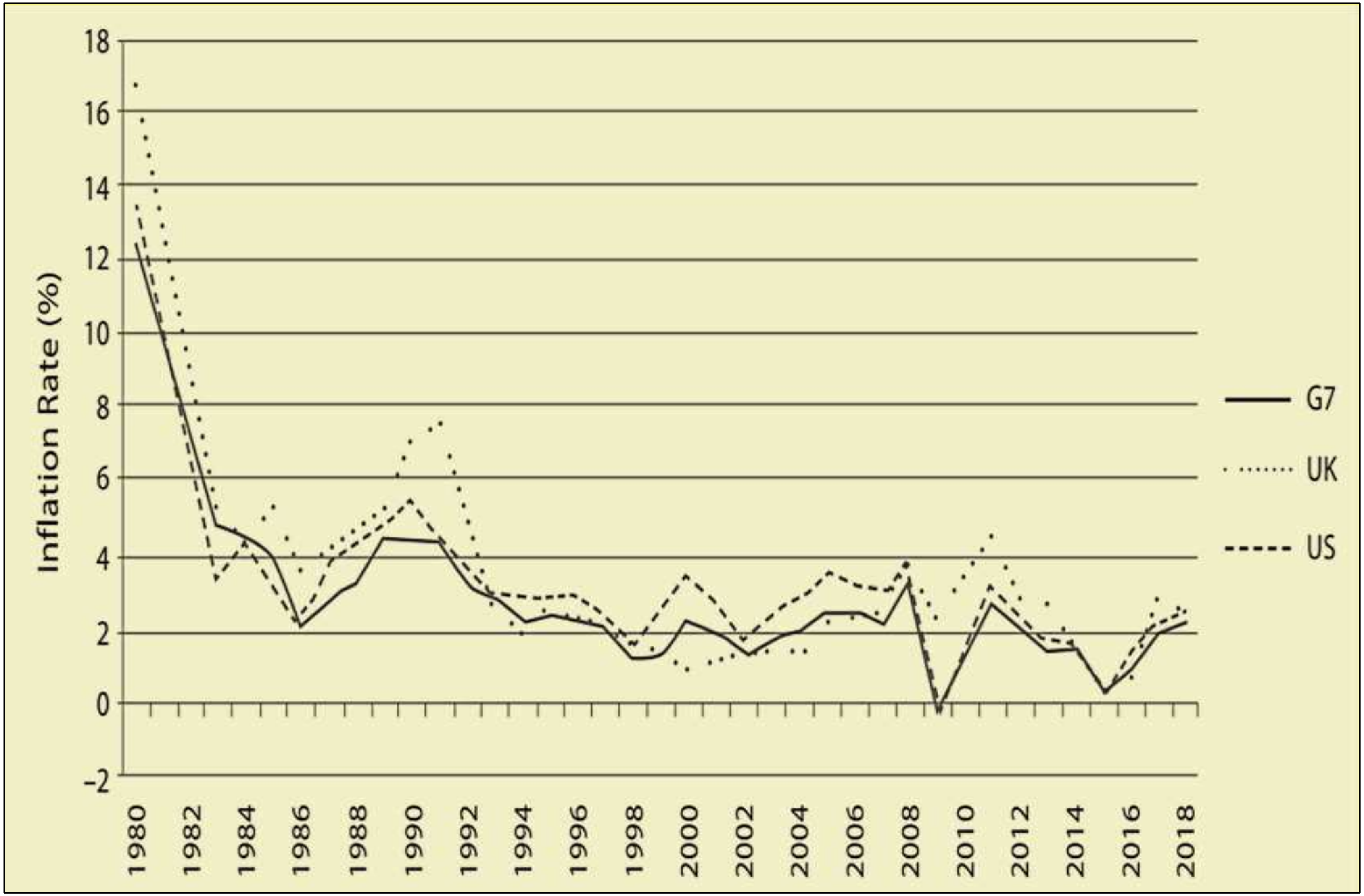
- **High levels of inflation can cause problems:**
  - **Businesses have to continually update prices to keep pace with inflation.**
  - **Employees find the real value of their salaries eroded.**
  - **Those on fixed levels of income, such as pensioners, will suffer as the price increases are not matched by increases in income.**
  - **Exports may become less competitive.**
  - **The real value of future pensions and investment income becomes difficult to assess, which might act as a disincentive to save.**

- **There are, however, some positive aspects to high levels of inflation:**
  - **Rising house and asset prices contribute to a 'feel-good' factor (although this might contribute to further inflation, as asset owners become more eager to borrow and spend and lead to unsustainable rises in prices and a subsequent crash).**
  - **Borrowers benefit, because the value of borrowers' debt falls in real terms – ie, after adjusting for the effect of inflation.**
  - **Inflation also erodes the real value of a country's national debt and so can benefit an economy in difficult times.**

Inflation Measures

- **There are various measures of inflation. In europe, for example, the main measure is the consumer price index (CPI).**
- **This is also known as the harmonised index of consumer prices (HICP) and is a measure of inflation that is prepared in a standard way throughout the European Union.**

World Inflation Rates



Source : IMF

GROSS DOMESTIC PRODUCT

- At the very simplest level, an economy comprises two distinct groups: individuals and firms. Individuals supply firms with the productive resources of the economy in exchange for an income.

- In turn, these individuals use this income to buy the entire output produced by firms employing these resources. This gives rise to what is known as the circular flow of income.

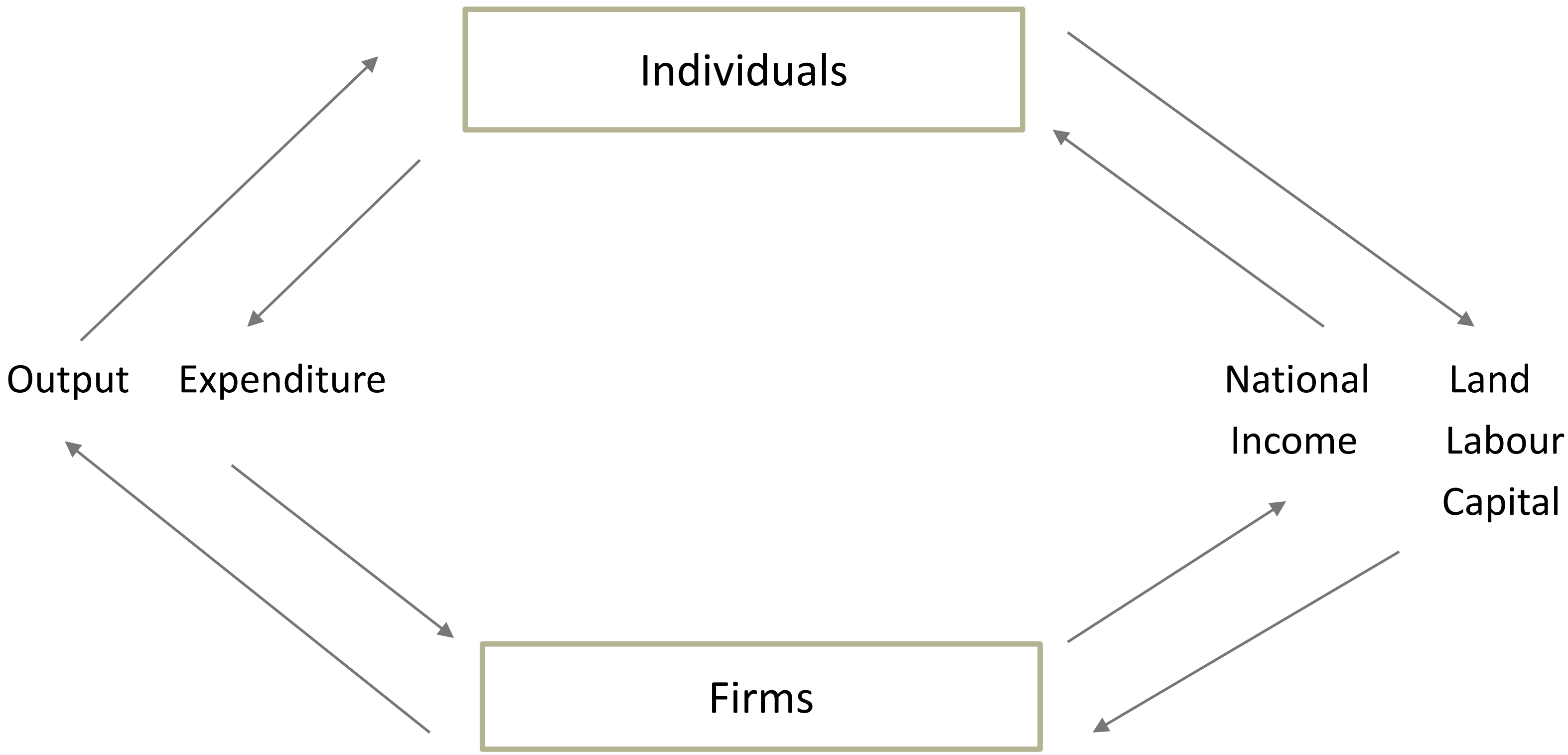
- This economic activity can be measured in one of three ways:

  1. By the total income paid by firms to individuals;

  2. By individuals' total expenditure on firms' output; or

  3. By the value of total output generated by firms.

Simplified Model of the Economy



GDP is **the most commonly used measure of a country's output**. It measures **economic activity on an expenditure basis and is typically calculated quarterly** as follows:

Gross Domestic Product	
	Consumer Spending
Plus	Government spending
Plus	Invesment
Plus	Exports
Less	Imports
Equals	GDP

ECONOMIC GROWTH

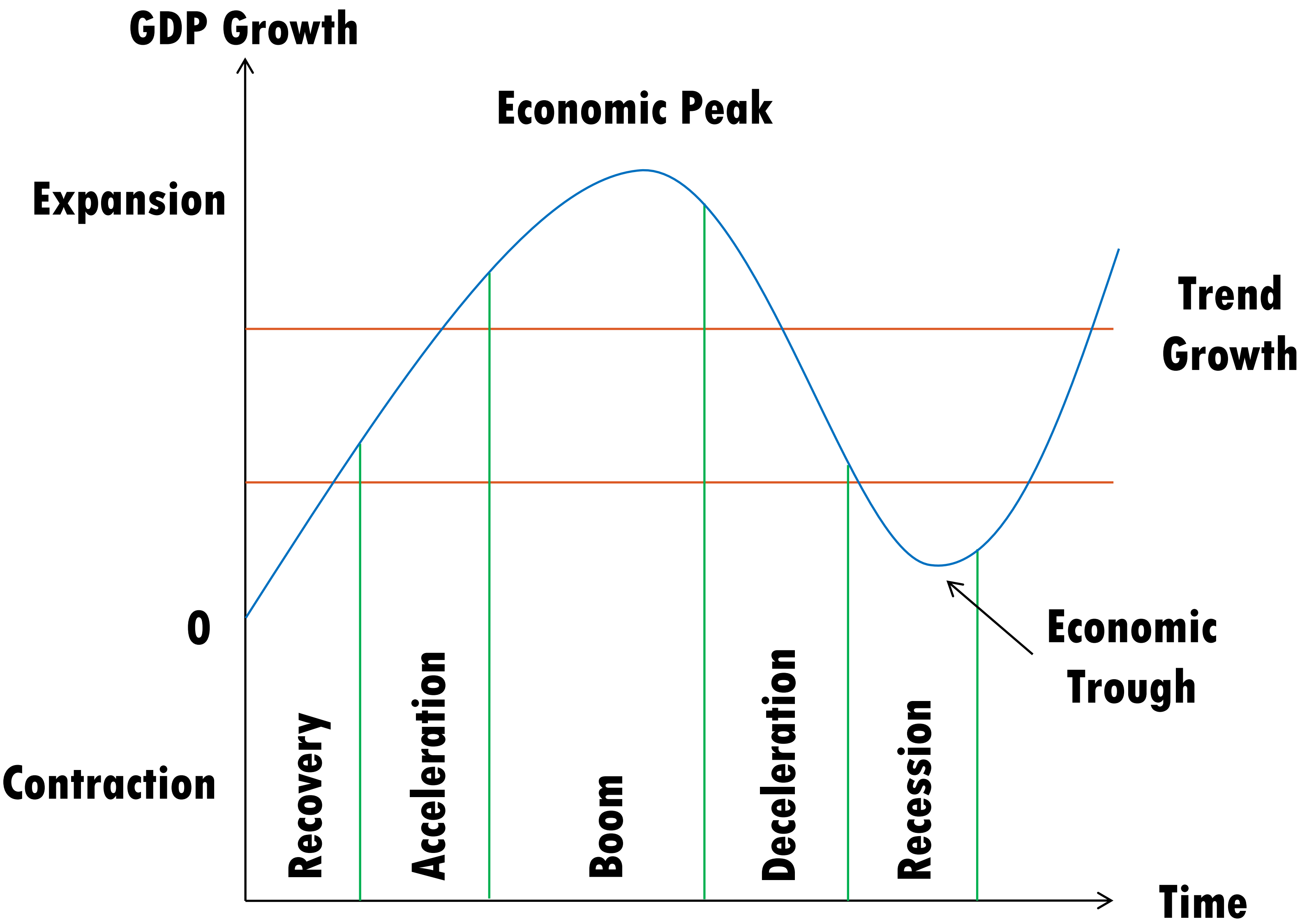
- There are many sources from which economic growth can emanate, but in the long run the rate of sustainable growth (or trend rate of growth) ultimately depends on:

1. The growth and productivity of the labour force;
2. The rate at which an economy eficiently channels its domestic savings and capital attracted from overseas into new and innovative technology and replaces absolescent capital equipment;
3. The extent to which an economy's infrastructure is maintained and developed to cope with growing transport, communication and energy needs.

- In a mature economy, the labor force typically grows at about 1% per annum, though in countries such as the US, where immigrant labour is increasingly employed, the annual growth rate has been in excess of this.

- Long term productivity growth is dependent on factors such as education and training and the utilization of labor-saving new technology.

- The fact that actual growth fluctuates and deviates from trend growth in the short term gives rise to the economic cycle, or business cycle.


GDP Growth
Economic Peak
Expansion
Trend
Growth
0
Economic
Trough
Contraction
Recovery
Acceleration
Boom
Deceleration
Recession
Time

BALANCE OF PAYMENTS

- The balance of payments is a summary of all the transactions between a country and the rest of the world.
- If the country imports more than it exports, there is a balance of payments deficit, if the country exports more than it impors, there is a balance of payments surplus.
- The main components of the balance of payments are the trade balance, the current account and the capital account (see p. 29-30 in form of table).
- The trade balance comprises a visible trade balance – the difference between the value of imported and exported goods, such as those arising from the trade of raw materials and manufactured goods and an invisible trade balance – the difference between the value of imported and exported service, arising from services, such as banking, financial services and tourism.

If a country has a trade deficit in one of these areas or overall, this means that it imports more than it exports, and, if it has a trade surplus, it exports more than it imports.

- The current account is used to calculate the total value of goods and services that flow into and out of a country.

The current account comprises the trade balance figures for the visibles and invisibles.

To these figures are added other other receipts such as dividends from overseas assets and remittances from nationals working abroad.

- The capital account records international capital transactions related to investment in business, real estate, bonds and stocks.

This includes transactions relating to the ownership of fixed assets and the purchase and sale of domestic and foreign investment assets.

These are usually divided into categories such as foreign direct investment when an overseas firm acquires a new plant or an existing business, portfolio investment which includes trading in stocks and bonds, and other investments, which include transactions in currency and bank deposits.

- Having the ‘right’ exchange rate is critical to the level of international trade undertaken, to international competitiveness and therefore to a country’s economic position.

This can be understood by looking at what happens if a country’s exchange rate alters.

If the value of its currency rises, then exports will be less competitive, unless producers reduce their prices, and imports will be cheaper and therefore more competitive.

The result will be either to reduce a trade surplus or worsen a trade deficit.

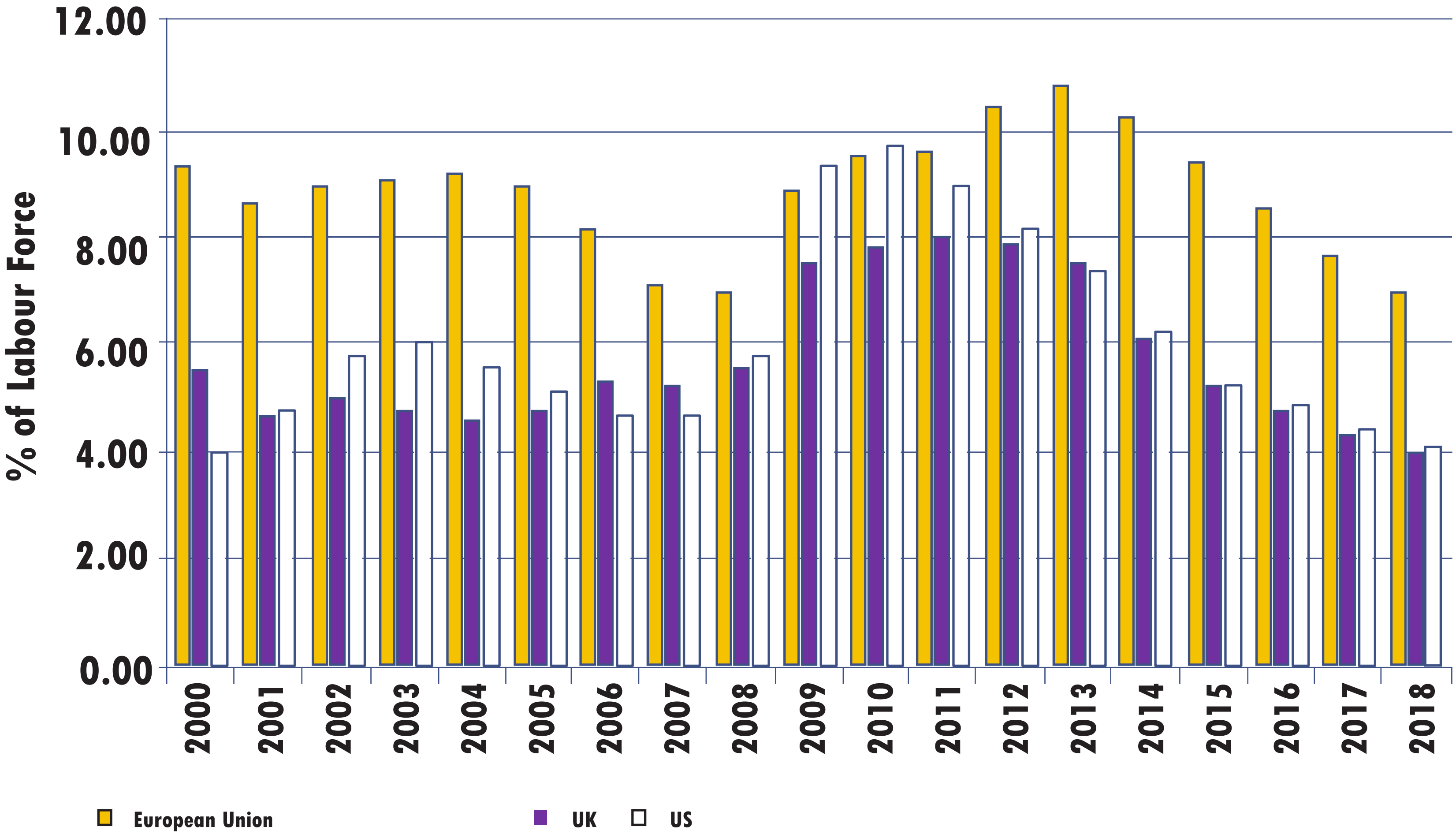
If its value falls against other currencies then the reverse happens: exports will be cheaper in foreign markets and so more competitive, and imports will be more expensive and therefore less competitive.

A trade surplus or deficit will therefore see an improving position.

LEVEL OF UNEMPLOYMENT

- The extent to which those seeking employment cannot find work is an important indicator of the health of the economy. There is always likely to be some unemployment in an economy – some people might lack the right skills and/or live in employment 'black spots'.
- Higher levels of unemployment indicate low demand in the economy for goods and services produced and sold to consumers and, therefore, low demand for people to provide them.
- High unemployment levels will have a negative impact on a government's finances. The government will need to increase social security/welfare payments, and its income will decrease because of the lack of tax revenues from the unemployed.

World Unemployment Rates



Source: World Bank

- Terima Kasih -