ROLE AND POSITION OF PUBLIC DEBT IN ISLAMIC FISCAL POLICY
IN INDONESIA

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Abstract

This study tries to provide an overview of the role and position of public debt in Islamic fiscal policy by collecting information from books, journals, scientific articles and official news related to fiscal policy in Indonesia. From the results of the analysis, the researcher found that although there are several opinions that suggest the use of public debt is permissible in overcoming the budget deficit that occurs in the state, there are still provisions that must be considered such as debt schemes that do not use interest or the practice of usury and only carried out in circumstances emergency and intended for meeting the needs that are important to the community. In addition, although debt instruments have beneficial values for the economy, there are many things that must be considered such as good management of the government, good political conditions, and efficiency and the absence of corruption or other illegal acts. In Islamic fiscal policy, there are various alternative sources of state income that have enormous potential through zakat, infaq, alms, and endowments. In addition, the use of debt instruments can be carried out in accordance with Islamic rules through the concept of mudaraba, musyarakah, and buying and selling business contracts.

Keywords: Public Debt, Fiscal policy, Islam, Indonesia

1. INTRODUCTION

The government has a very important role for the realization of the welfare of the people in a country. Various regulations and policies are needed to achieve these goals, especially in the economic sector. The duties and roles of the government in the management of state finances are included in the field of public finance related to the management of resources owned by a country in order to achieve common goals, the welfare and benefit of all the people. Islam is a perfect religion which also regulates public finance with a comprehensive system according to the Quran and sunnah.

One of the instruments for managing the country's economy is fiscal policy related to the revenues and expenditures of a country which in Indonesia is regulated in the State Budget (APBN/ Anggaran Pendapatan Belanja Negara) (Supangat, 2013). Fiscal policy instruments include the management of state businesses through BUMN (State-Owned

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Enterprises), tax policies, and loans (Karim, 2007: 255-257). Fiscal policy is very important in relation to sources of state revenue and effective allocation of state expenditures so that public welfare can be achieved.

One of the important issues related to fiscal policy is public debt, which is a financing instrument produced by the government to cover the state budget deficit through loans both from domestic and foreign sources (Widiastuti, 2020). This financing instrument is still being debated because of the many differences of opinion both allowing and prohibiting. In Indonesia, debt instruments have become a source of funding in overcoming the budget deficit in the APBN. Government debt financing until the end of the 1990s was mostly in the form of foreign loans from bilateral and multilateral institutions and was non-tradable, while currently the composition of Government debt was dominated by financial market instruments in the form of SBN (Government Securities). In 2020, Indonesia's total outstanding loans were 791.85 trillion rupiah, with details of foreign loans of 782.04 trillion and domestic loans of 9.80 trillion. The outstanding value of SBN (Government Securities) is 4,472.22 trillion rupiah. In addition, to tackle the crisis caused by the Covid-19 pandemic, Indonesia also chose debt as one of the funding instruments along with making a budget reallocation. The funding requirement for the National Economic Recovery (PEN) program reaches Rp.695.2 trillion and according to a statement from the Minister of Finance Sri Mulyani, Indonesia's debt ratio is predicted to reach 38.5 percent of Gross Domestic Product (GDP) in 2020 (CNN Indonesia).

The increasing amount of debt is debated by many parties, on the one hand the debt instrument is needed to cover the budget deficit that occurs especially when there is a crisis like now, but on the other hand, debt will burden the community and cause concern for the future economic situation. A study conducted by Susan George also concluded that repayment of foreign debt will be more burdensome for the indebted country (Atmadja, 2000). This study tries to provide an explanation regarding the role and position of public debt in Islamic fiscal policy and how solutions in Islam are related to budget management in relation to fiscal policy. This study also provides an overview of the position of public debt in fiscal policy in Indonesia to be associated with the rules in Islam.

2. LITERATURE STUDY
2.1 Islamic Fiscal Policy

Fiscal policy is a rule or regulation decision from the government of a country related to adjustments in the field of income and expenditure which aims to direct economic conditions for the better (Rahayu, 2014: 1). According to Sukirno (2006: 184) Fiscal policy is the steps taken by the government to make changes in the tax system or in its shopping aimed at overcoming economic problems. Based on this understanding, it can be concluded that fiscal policy is a policy for the management of the country's economy through adjustments in the field of income and expenditure. Fiscal policy from a conventional point of view and from an Islamic point of view has similarities but also differences because in Islam all actions must be in accordance with Islamic values and principles. In the conventional system the objective of fiscal policy is to achieve prosperity in the form of maximum benefits regardless of human spiritual needs, while in the Islamic system fiscal policy aims to improve the economy for the creation of universal welfare covering life in the world and in the hereafter. In addition, Islamic fiscal policy aims to develop a society based on a balanced distribution of wealth (Aini, 2019: 43).

Islamic fiscal policy has certain characteristics including value orientation, ethical and social dimensions in carrying out its allocation, distribution and stabilization functions. For example, in the taxation system, Islam must ensure that only the rich and affluent who have the advantage bear the main burden of taxes with a proportional and fair system. According to Rozalinda (2014: 211), some of the characteristics of fiscal policy in the Islamic economy include state expenditure based on income so that the budget deficit can be minimized, a taxation system that is proportional to the level of productivity, and the calculation of zakat based on the results of profits, not on the number of goods.

2.2 Islamic Fiscal Policy Instruments

Islamic and conventional fiscal policy instruments both consist of revenue sources and state budget allocations. From a conventional point of view according to Karim (2007: 255-257) the tools or methods used by the government in collecting funds consist of taxes, loans (debt), and state business results through BUMN (State-Owned Enterprises). From an Islamic point of view, several things were done in fiscal policy at the beginning of Islamic rule including increasing work participation, tax policy, effective budgeting and special fiscal policies carried out based on certain circumstances. The
following is an explanation regarding the sources of income and the Government Budget Policy according to Islam:

**a. Source of state income**

1) **ZISWAF (zakat, infaq, alms and waqf)**

   Zakat, infaq, almsgiving and waqf are instruments of equal distribution of income in Islam which have their own characteristics in practice. Some are obligatory such as zakat and some are sunnah such as infaq, almsgiving and endowments. In addition, each object has different characteristics so that it is very relevant as a way of realizing welfare and equitable distribution of society.

2) **Kharaj**

   Kharaj is a tax imposed on land owned by all members of society, both Muslims and non-Muslims, based on the level of productivity of the land taking into account the characteristics of the soil / soil fertility, the type of crop, and the type of irrigation.

3) **Jizyah**

   Jizyah is a tax paid by non-Muslims as compensation for the social, economic, welfare services and security guarantees they receive from the Islamic State. If they have embraced Islam, then the obligation to pay jizyah is invalidated and Jizyah is not obliged if they do not have the ability to pay it because of poverty. In modern times, jizyah is like a tax imposed by the government on foreigners who enter and stay in the territory of a government or known as Visa (Rozalinda, 2014: 221).

4) **Khums**

   Khums are funds obtained from one fifth of the spoils of war (ghanimah). In Q.S. al-Anfal verse 41 explains about the arrangement of the allocation of war spoils, namely one fifth for Allah and His Messenger. This part is allocated for general welfare such as for relatives, orphans, poor people and travelers. This fifth is known as khums (Rozalinda, 2014: 221).

5) **Usyur**

   Usyur is a tax imposed on goods that enters an Islamic country, or comes from an Islamic state itself. This tax is in the form of import duties imposed on all traders.
6) Loan or debt

Loans or debt in Islam are only secondary receipts because in an Islamic economy there is no interest, likewise for loans in Islam it must be interest free, so that government spending will be financed from tax collection or profit sharing.

7) Other income

This acceptance can be in the form of kafarat or fines and kalalah inheritance, namely inheritance from people who do not have heirs.

b. State budget policy

In managing the state budget, Islam has values and principles that come from the Quran and the Sunnah. If you look at the practice of budget policies during the time of the Prophet Muhammad, it will be different because the modern budget system is increasingly developing and more complicated so that adjustments are needed but still based on Islamic values. For example in the preparation of the APBN, although in Islam it does not recognize the making of an annual state budget, this system can be implemented by using Islamic values, for example by selecting a source of funding that does not come from usury. Then related to budget policy, the basis used is effective and efficient practices. Some general principles in budget policy according to Islamic law are as follows: (Nasution, 2006: 223-224):

1) Government spending must be in the corridor of maslahah
2) Avoiding mashaqqah (difficulties) and harm should take precedence over making improvements
3) Individual mudarat can be used as an excuse to avoid mudarat on a general scale
4) Individual sacrifices can be made and individual interests can be sacrificed in order to avoid loss and sacrifice on a general scale
5) The al-ghanmu bi al-ghurni rule, which is a rule that states that those who get benefits must be ready to bear the burden (those who want to be lucky must be prepared to bear losses)
6) The rule of "ma la yatimnu al-wajibu illa bihi fahuwa wajib". Namely the rule which states that "something that must be upheld, and without being supported by other supporting factors cannot be developed, it is obligatory to enforce these supporting factors."
3. RESEARCH METHODOLOGY

This study uses a qualitative approach, namely research that is general in nature, changes and develops according to conditions in the field. Qualitative research is global, not detailed, uncertain and very flexible so that it is very open in nature (Putra and Lisnawati, 2012: 28). The method in this research is descriptive method with literature study research techniques and type of library research (library research). Descriptive research method is a method or tool used by researchers to answer a series of research questions by collecting as much data as possible regarding the topic of public debt in Islamic fiscal policy. Furthermore, literature study research techniques are used by researching and understanding books, documents or other written sources relevant to the topic of public debt in Islamic fiscal policy. This research is included in the type of library research (library research) according to the explanation Subagyo (1999: 99), namely Research that uses literature data as a theory to be studied and analyzed in order to obtain a hypothesis or conception to obtain objective results. With this type of information can be taken completely to determine scientific action in research as a research instrument that meets research support standards.

Based on descriptive methods and literature study techniques, this study tries to provide answers to the problems of public debt in Islamic fiscal policy. The role and position of public debt is explained through data and information sourced from books, journals, articles and financial reports from the Indonesian State Budget (APBN/Anggaran Pendapatan Belanja Negara).

4. RESULT AND DISCUSSION

4.1 Debt in an Islamic Perspective

Debt or loans are liabilities of existing corporate entities due to past transaction events that must be paid off in the future (Susilowati, 2016). According to Sutrisno (2003) debt is capital that comes from loans through financial institutions or debt securities with compensation returns for perceived benefits. Debt in an Islamic perspective is called Al-Qard which means cutting. By definition, qard is a loan and loan agreement with the condition that the party receiving the loan is required to return the funds received without any additional (Widiastuti, 2020: 163). In Islam qard is a contract based on the purpose of helping to help so that there is no additional return. The debt and credit agreement is
intended to love fellow humans and help (ta'awun) in various matters. This is in accordance with the word of Allah SWT in Qs. Al-Hadid (57): 11

مَنْ ذَا الَّذِيْ يُقْرِضُ اللّٰهَ قَرْضًا حَسَنًا فَيُضٰعِفَهٗ لَهٗ وَلَهٗٗٓ اَجْرٌ كَرِيْمٌ

Meaning: Whoever lends to Allah with a good loan, then Allah will return it multiplied for him, and for him a noble reward,

The debt related to the legal individual is permissible in Islam as revealed by the following hadith:

From Rafi 'said, the Prophet SAW borrowed a young ox, then the Prophet SAW received a good camel, then he told me to pay off his young ox debt to that person. I said, "I did not find in that camel other than a camel with four fine legs. He said just give it to him, because the best people are those who are the best when paying off their debts.

In Islam the concept of debt consists of two, debt through loans and debt through financing. Loan debt is debt that arises because of a loan, either in the form of goods or money. This loan will be paid back in the same type at the agreed period with the same amount. In Islamic law, loan debt in zahir is not included in capital development efforts, because debt through borrowing is one form of assistance that is helping to help. Meanwhile, debt through financing or buying and selling is debt arising from trade transactions. The form of debt through financing is different from loan debt, because debt in this form indicates a transfer of ownership rights to another person. Then the principal payment of debt is made back on a delayed basis at the agreed period (Yusuf Qardhawi, 1997: 111 in Kirom 2018).

4.2 Role and Position of Public Debt in Islamic Fiscal Policy

Debt in the context of a country is called public debt, which is a loan made by the central government and local governments in a country. This loan is used to cover budget deficits that occur in countries that adhere to a deficit budget system, such as in Indonesia. Based on this system, the expenditure budget will be greater than the revenue because it aims to increase economic growth. This is different from budgeting practices in Islamic governments which use a balanced budget system. The principle of leaders in Islamic times was that expenditure should only be made when there is acceptance. The practice of deficit budgeting is only carried out during certain circumstances, for example during
the time of the Prophet Muhammad, which was before the Hunain War and before Fathu Makkah because many people converted to Islam so that the expenditure of zakat was greater than their income (Huda, 2016).

From a conventional point of view, there are two theories that explain the importance of debt, in this case foreign debt, for financing the development of a country. The first theory says that foreign debt is needed to close the saving gap that occurs in the country (domestic saving). External debt is an alternative in closing the saving gap in addition to investment and equity participation, such as Foreign Direct Investment (FDI), short term capital and long term capital. The second theory looks at foreign debt from the balance of payments side, where foreign debt functions to accommodate current account interests which are autonomous and function as gap filling, namely filling gaps due to current account deficits. (Hamid, 2000: 112)

From an Islamic point of view, there are two opinions regarding public debt according to Huda (2016). The first party is the one who is pro to debt (external financing). According to this opinion, debt is allowed as long as in practice it is in accordance with the Shari'a. This opinion argues that cooperation with other parties in a business is permissible, even recommended, such as murabaha, mudaraba, musharaka. The second opinion is against debt (external financing) on the grounds that it is a preventive measure for the involvement of Islamic countries in foreign debt because it will come into contact with usury. According to Beik (2009) in Huda (2016) in debt, there are certain principles that must be done, namely:

a. Debt is the last alternative when all efforts to obtain funds legally and in cash are not possible so that debt is not a habit.

b. If you are forced to go into debt, you cannot go into debt beyond your ability. In sharia terms, it is called ghalabatid dayn or being in debt because it will have a negative effect, causing a large effect, namely qahrir rijal or easily controlled by other parties. Rasulullah prayed that he would always be protected from ghalabatid dayn diseases which would cause self-respect to be lost.

c. If the debt has been incurred there must be an intention to pay because the debt is a liability. Islam is against people who are negligent of their debts. In a hadith it is even said that all the sins of a martyr will be forgiven except for debts "(HR Muslim No. 1886).
4.3 Alternative Public Debt Instruments in Islam

Islamic economics is based on the Qur’an & hadith which aims to achieve happiness in the world and the hereafter (al-Falah), as well as public debt in fiscal policy. Some concepts in Islam that can be a solution in avoiding the negative impact of foreign debt that contain elements of usury are as follows:

a. The concept of Musharaka (Syirkah), namely business cooperation with a mix of funds for the purpose of sharing profits. The government can also cooperate with Islamic banking through this concept in a real asset and the profits that will be generated will be shared.

b. The Concept of Profit Sharing (Mudharabah) is a cooperation project that can be carried out between the government and Islamic banks with management carried out by the government. Profits can be shared according to a profit sharing scheme.

c. The concepts of buying and selling trade carried out in Islamic economics can be used to gain profit without causing tyranny and exploitation of the parties involved. This solution can be done so that the government can collaborate with other countries by using the musharaka, mudaraba and buying and selling systems in creating economic development in Indonesia.

The Indonesian government does not have to cooperate in debt to other countries, because the three solutions above are an effective way to increase development without the existence of usury. The forms of cooperation that are permitted in shari’ah, such as mudharabah, musyarakah, murabahah can be developed as a form of external financing in the state budget. In principle, these forms are more of a flow creating equity flow creating debt, which international financial institutions have begun to implement. Islamic Development Bank through project financing in Islamic countries. Compared to debt, equity participation is seen as more constructive, proportional and fair in financing, because there is a distribution of returns and risks.

According to (Al-zoubi et al., 2008) zakat is also an important alternative in achieving a pareto optimal state of fiscal policy in a country. Zakat is also proven as an instrument of equalization of wealth and optimization of fiscal policy so that optimization does not have to be achieved with debt instruments but also with Zakat and taxes which are managed properly, effectively, and efficiently. Zakat has an economic role in its
capacity to generate public revenue by determining expenditure and also providing budget stability. Zakat is considered a central and main fiscal policy instrument because it has potential and advantages over other forms of fiscal instruments in terms of creating job opportunities, increasing investment, providing a fair redistribution of income and wealth, having a positive impact on poverty alleviation, and functioning as an automatic stabilization tool when there was an economic recession (Daud & Audu, 2011). Based on this, zakat is a very appropriate instrument to exploit its potential in overcoming economic problems during a recession due to the corona virus pandemic which is still ongoing until 2021.

Besides that, the solution to this foreign debt according to Andi Hasdi Hakim is as follows; (Afriyenis, 2016)

a. Increasing people's purchasing power, namely through empowering the rural economy and providing small business capital as large as possible.

b. Progressively increase taxes on luxury goods and imports. The reality is that the government currently takes a luxury tax

c. The concept of development that continues and leads to a single point of maximizing the strength of the national economy, gradually releases dependence on foreign debt.

d. Promote pride in domestic production, increase the willingness and ability to export superior products and foster the entrepreneurial spirit of the community.

e. The country of Indonesia is actually rich in superior natural resources so that if we use them to the maximum, it will provide foreign exchange

f. Developing quality human resources and placing welfare that is just and equitable.

4.4 Public Debt in Fiscal Policy in Indonesia

Currently, Indonesia is a country that adheres to a deficit budget system, namely a budget system where in practice the amount of expenditure is greater than revenue. This system was chosen because Indonesia is a country at the development stage, so it requires large funds to build infrastructure and programs that support the country's economic growth. Indonesia began to adopt a deficit budget system in 2000 after adopting a balanced budget system in previous years. For the value of Indonesia's public debt itself, it experienced a very drastic increase in 1998 due to the financial crisis that occurred and then decreased until finally in 2021 the issue of public debt was again hotly discussed.
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because the government chose a debt instrument to provide a source of funding to overcome the resulting budget deficit by the Covid-19 pandemic crisis. The table below shows the value of Indonesia’s public debt from year to year and its ratio to the value of GDP (Gross Domestic Product) for the last ten years or so.

Table 4.1 Amount of Indonesian Public Debt and Its Comparison with the Value of GDP (Gross Domestic Product) in 2010-2021

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Public Debt (Triliun)</th>
<th>Ratio to GDP</th>
<th>Year</th>
<th>Amount of Public Debt (Triliun)</th>
<th>Ratio to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.681.7</td>
<td>24.5%</td>
<td>2016</td>
<td>3.515.5</td>
<td>28.3%</td>
</tr>
<tr>
<td>2011</td>
<td>1.809</td>
<td>23.1%</td>
<td>2017</td>
<td>3.938.7</td>
<td>29.4%</td>
</tr>
<tr>
<td>2012</td>
<td>1.977.7</td>
<td>23%</td>
<td>2018</td>
<td>4.418.3</td>
<td>29.8%</td>
</tr>
<tr>
<td>2013</td>
<td>2.375.5</td>
<td>24.9%</td>
<td>2019</td>
<td>4.786</td>
<td>30.2%</td>
</tr>
<tr>
<td>2014</td>
<td>2.608.8</td>
<td>24.7%</td>
<td>2020</td>
<td>6.074.56</td>
<td>38.68%</td>
</tr>
<tr>
<td>2015</td>
<td>3.165.2</td>
<td>27.4%</td>
<td>2021</td>
<td>6.445.07*</td>
<td>41.64%*</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance Report

* Data up to the 1st quarter (March)

From table 4.1 it can be seen that the value of Indonesian government debt from year to year. From 2010 to 2018 the ratio of debt to GDP ratio was still below 30%. The value of 30% is a target that the government is trying to maintain until 2018, but in 2019 the government debt ratio is more than 30%. If you look at the rules that have been passed, namely the State Finance Law Number 17 of 2003, the maximum limit for the ratio of government debt is 60% to GDP (Gross Domestic Product), then the value of 41.64% in 2021 is still below the threshold. Even though Indonesia's debt ratio is still below the threshold, the government still has to be vigilant because if you look at the data on BUMN debt in 2021 it has reached 12,269.63 trillion, which is 79.5 percent of GDP when combined with government debt (Pikiran Rakyat.com). In addition, if you look at table 4.1, it can be seen that during the period 2010 to 2021 the amount of Indonesian government debt continued to increase with the ratio of the ratio to GDP which also
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continued to increase in 2015 to 2021, but in the period 2010 to 2014 the debt to GDP ratio was still experience ups and downs.

When viewed from the perspective of public debt from an Islamic perspective, the amount of Indonesia's debt can be seen from two sides. On the one hand, the increase in debt by the government has a good purpose because it is aimed at the problems and welfare of the community through economic improvement. In addition, if you see a significant increase in debt in 2020, it is not without reason, but because of the emergency due to the Covid 19 pandemic. On the other hand, debt in Islam is only used as a last resort and not a habit. Based on this, even though the decision to increase debt by the government has been based on good intentions, the government must still try to find alternative sources of state revenue that are more effective and safer so that the sustainability of the state's financial condition is maintained.

With a large amount of debt, the Indonesian government must also be careful so that the use of debt instruments can have a positive impact in accordance with the objective, namely to achieve economic growth. Even though the purpose of public debt is good, if it is not managed properly then this will not have a good impact. Research conducted by (Ali et al., 2019) shows that poor governance can lead to a higher ratio of public debt to GDP. Several other variables that must be considered by the government regarding debt management include per capita income which has a negative relationship with public debt so that the higher the per capita income in a country, the lower the public debt ratio. The government expenditure variable also has a positive relationship which shows that the higher the government expenditure, the higher the public debt ratio. Based on this, the government must not only focus on good public debt management, but must also focus on increasing the per capita income of the community so that the increase in the amount of debt that occurs is not greater than the increase in per capita income. Government expenditure items must also be considered so that expenditure budgets are right on target and are actually allocated to important sectors. The hope is that in the future the Indonesian economy will continue to experience growth without relying on risky public debt instruments. From the research conducted by (Ali et al., 2019) it can be seen that the role of government is very vital for the success of public debt management, so the government must pay attention to good management, be full of caution, maintain the stability of the country's political condition and eradicate all harmful acts of corruption.
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5. CONCLUSION

Fiscal policy in Islam has its own characteristics because it is rooted in the rules of Allah SWT in the Quran and Sunnah. If you look at various instruments, both revenue and budget allocation in Islam, several things become important points, including the instrument of acceptance in Islam that must be free from usury and in its regulation it must be fair and proportional, for example in the tax system. In addition, the budget allocation must prioritize benefit, avoid harm, and prioritize common interests. The government must be able to manage the state budget effectively and efficiently so that welfare goals can be achieved and there is no budget deficit. Regarding the use of public debt, there are still differences of opinion. On the one hand, public debt is considered an instrument that can quickly solve economic problems, especially during a recession, but on the other hand, if public debt is not managed properly, this will cause a decline in the economic situation. Some things that must be considered in managing public debt include good accountability, stability in political conditions, and the absence of corruption. Based on this, the debt instrument should only be used in circumstances that are forced, not a habit and always prioritize principles in accordance with Islamic teachings.

Reference


Ani Sri Rahayu, Pengantar Kebijakan Fiskal, (Jakarta: Bumi Aksara, 2014), Ed. 1, Cet. 2, hal. 1


