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Islamic Central Bank Governance Model: Integration of Maqashid Sharia in Monetary Governance

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ABSTRACT

This study aims to analyze and formulate a model of Islamic central bank governance through the integration of maqashid sharia in monetary policy as an alternative to the conventional system, which is considered to have limitations in achieving economic stability and justice. The background of this research is based on criticism of the interest-based monetary system, which tends to widen inequality, is speculative, and pays little attention to the ethical dimension and the real welfare of society. The study uses a qualitative approach with a literature study method (library research), by reviewing various sources such as books, scientific journals, and reports from official institutions relevant to Islamic economics and finance. The analysis was conducted descriptively and critically to compare the conventional monetary paradigm with the maqashid sharia-based approach. The results show that the integration of maqashid sharia in monetary governance can shift the policy orientation from stability-centric to welfare-centric, emphasizing distributive justice, financial inclusion, and economic sustainability. The operationalization of this model is reflected in the use of interest-free monetary instruments, strengthening sharia-based institutions, and developing performance indicators that reflect the public welfare. However, the implementation of this model still faces various challenges, such as the dominance of the conventional system, limited sharia instruments, and low public financial literacy. Therefore, an integrated and gradual policy transition roadmap is needed to realize a more inclusive, stable, and equitable Islamic monetary system.

Keywords: maqasid sharia, Islamic central bank, monetary policy, governance, Islamic economics.

INTRODUCTION

The conventional central banking system, which has dominated the global financial architecture since the mid-20th century, faces fundamental criticism for its inability to prevent recurring financial crises, widening economic disparities, and neglecting the ethical dimension of monetary policymaking. A model that relies on interest rates as the primary instrument, rigid inflation targets, and an exclusive focus on price stability often sacrifices systemic stability, distributive justice, and the real well-being of society. The 2008 financial crisis, post-pandemic market volatility, and global inflationary pressures have exposed the fragility of this debt-driven and speculative system, prompting the search for an alternative paradigm that is more inclusive, stable, and grounded in human values.(Economic, 2023)

Amidst these concerns, Islamic economics and finance offer a normative framework that emphasizes justice (adl), the benefit (maslahah), and the prohibition of riba (usury), gharar (gharar), and maysir (gambling). The rapid growth of the Islamic financial industry in more than 70 countries has prompted monetary authorities in the Muslim region to consider adjusting their policy architecture to align with Sharia principles. However, the adoption of Sharia-compliant instruments such as sukuk (Islamic bonds), profit-and-loss sharing, and real asset-based liquidity facilities has not been accompanied by a comprehensive reconstruction of central bank governance. Most central banks in Muslim countries still adopt conventional institutional structures, operational mandates, and policy transmission mechanisms with only partial modifications, creating tension between technical monetary objectives and the fundamental values of Islamic economics.(Partner et al., 2021)

In this context, Maqashid al-Shari'ah emerges as the most relevant philosophical and operational framework for reorienting Islamic monetary governance. Developed by classical scholars such as Al-Ghazali, Al-Shatibi, and contemporary scholars such as Ibn Ashur, this concept focuses not only on formal compliance with Islamic jurisprudence, but also emphasizes the achievement of substantive welfare (maqashid haqiqiyyah) in five main aspects: protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-'aql), descendants (hifz al-nasl), and property (hifz al-mal). In the realm of monetary policy, the integration of Maqashid requires Islamic central banks to not only stabilize inflation or exchange rates, but also ensure equitable distribution of wealth, prevent financial exploitation, support the real sector, and protect the purchasing power of vulnerable groups. However, to date, the operationalization of Maqashid in the design of central bank governance remains fragmentary, limited to fatwas on financial products, and has not been embodied in a macroprudential policy framework, institutional mandate, or measurable public accountability mechanism.(Apriliani et al., 2025)

Recent academic literature and policy documents have extensively discussed Islamic monetary instruments, Islamic banking liquidity management, and the role of the Sharia Supervisory Board. However, studies that systematically formulate an Islamic central bank governance model that integrates Maqasid Sharia into the monetary policy cycle, decision-making structure, transparency, performance evaluation, and cross-authority coordination remain very limited. (Aziza, 2023) The absence of a comprehensive governance model makes it difficult for central banks in Muslim countries to balance their monetary stability mandates with social welfare objectives, and they face legitimacy challenges amid public demands for an ethical, inclusive, and resilient financial system. Meanwhile, the acceleration of financial digitalization and the emergence of digital currencies further exacerbate the need for an adaptive governance framework that remains rooted in Sharia values.

Theoretically, this study contributes to the development of Islamic economics literature by bridging modern monetary discourse and Islamic legal philosophy, while also offering an empirically testable analytical framework. Practically, this model can serve as a policy reference for monetary authorities in countries with significant Muslim populations, international financial institutions, and regulators developing a more inclusive and welfare-oriented financial architecture. (Meutia & Adam, 2021) This paper will begin with a critical review of the conventional central bank governance paradigm and the urgency of integrating Maqashid Syariah, followed by an analysis of the suitability of monetary instruments with sharia principles, the formulation of a proposed governance model, and conclude with policy implications and recommendations for further research.

RESEARCH METHODS

This research uses a qualitative approach with a literature study method (library research) which aims to examine in depth the concept of Islamic central bank governance through the integration of maqashid sharia in monetary policy.(Sugiyono., 2019) This approach was chosen because the research object is conceptual and normative, thus the analysis was conducted through a review of various written sources such as books, scientific journals, official institutional reports, and policy documents relevant to Islamic economics and finance. The primary sources in this research include publications from Bank Indonesia, the Financial Services Authority (OJK), the National Committee for Islamic Economics and Finance (KNEKS), as well as classical and contemporary literature on the maqasid of sharia and Islamic monetary policy.(Ojk, 2020)

Data were obtained through a search of various literature sources, including journal articles, official reports, laws and regulations, and credible digital publications. The literature was selectively selected based on topic relevance and the recency of the sources in the field of Islamic Central Bank Governance. The researcher ensured that all data used contained factual, argumentative, and academically sound information. During the data collection process, the researcher also avoided sources containing subjective opinions without scientific support. This was done to maintain the objectivity and validity of the research argument.

This study uses a descriptive-critical analysis approach, describing the concept of conventional monetary governance and comparing it with a sharia-based monetary approach. The critical approach is used to evaluate the weaknesses of the conventional system and identify the advantages of the maqashid sharia approach in creating a fairer and more sustainable monetary system. Using this method, researchers can develop a conceptual model of Islamic central bank governance that is not only normative but also applicable in the context of modern economic policy.

DISCUSSION

Maqashid Syariah as a Paradigm of Monetary Governance

Conventional central bank governance has historically been built on the paradigm of price stability and inflation control, assuming that macroeconomic stability will automatically trickle down to real welfare through a trickle-down effect. However, empirical experience following the 2008 financial crisis, the 2020 global pandemic, and the 2022–2024 inflation wave have exposed the structural limitations of this approach. Interest-rate-based monetary policies and quantitative easing tend to favor holders of financial assets, widen the wealth gap, and encourage financialization, separating the financial sector from the foundations of the real economy.(Epstein, 2002) Furthermore, the assumption of distributional neutrality of monetary policy has been empirically proven flawed, with policy transmission being regressive towards low-income households and MSMEs that rely on formal credit financing. Within this framework, debt-based and speculative money creation not only ignores ethical dimensions but also has the potential to create recurring systemic instability.(Rahmawan, 2025)

In the Islamic economic paradigm, the central bank's mandate should not be reduced to merely technical targets, but rather should be oriented toward achieving maslahah 'ammah (public welfare) operationalized through the lens of Maqasid al-Shari'ah. The integration of maqasid into monetary governance shifts the focus from stability-centric to welfare-centric, where monetary stability is viewed as an instrumental means, not an end in itself. This approach aligns with the principles of tawhid and khilafah, which position the monetary authority as a public steward responsible for balancing allocative efficiency, distributive justice, and ecological sustainability. (Juhro et al., n.d.) Thus, Islamic central banks not only measure their success through the deviation of inflation from the target, but also through their contribution to the eradication of monetary poverty, expanding access to productive financing, and preventing the accumulation of disproportionate wealth.(Lamjadi, 2019)

The five main dimensions of Maqashid can be translated into measurable and institutionalized macro-monetary policy objectives. First, Hifz al-Mal translates as purchasing power stability, preventing exploitative inflation, and protecting the real value of public assets, which is realized through inflation targets that take into account food and energy components and controlling exchange rate volatility.

Second, Hifz al-Nafs and Hifz al-‘Aql are realized through inclusive financial inclusion, value-based monetary literacy, and consumer protection from high-risk financial products and predatory lending practices. Third, Hifz al-Nasl is directed at the sustainability of financing the real sector, MSMEs, and the green economy through a selective mix of liquidity instruments (e.g., green sukuk and profit-sharing financing facilities). Fourth, Hifz al-Din emphasizes the systematic prohibition of riba, gharar, maysir, and instruments that distort transaction fairness, which are implemented through sharia filters in open market operations and risk-sharing standards in emergency liquidity facilities. Fifth, contemporary dimensions developed in modern maqasid literature, namely Hifz al-Bi’ah (environmental sustainability) and Hifz al-‘Ummah (social cohesion), strengthen the central bank’s mandate to integrate climate risk and structural inequality into the sharia macroprudential framework. Thus, maqashid is not merely an ethical overlay, but rather a governance compass that redefines the central bank's policy objectives, success indicators, and accountability mechanisms.(Mergaliyev et al., 2021)

The operationalization of this framework requires a reform of the central bank's governance architecture, moving beyond formal (Shariah-compliant) compliance to substantive (Shariah-based and Maqashid-driven) internalization. The decision-making structure must accommodate a Sharia

Monetary Board with evaluative authority over policy impacts, supported by a research unit that develops the Maqashid Monetary Index (MMI) to complement conventional indicators. Policy transmission mechanisms also need to be reconfigured so that Sharia credit channels become not merely a technical substitute but rather the primary channel for capital allocation to productive and inclusive sectors. Furthermore, public accountability must be strengthened through independently audited reporting of the impact of Maqashid, transparency in the policy fatwa process, and strategic integration between monetary, fiscal (Zakat/Wakf), and macroprudential policies to create synergy for the benefit of all sectors.

Based on these theoretical and empirical elaborations, this study proposes an Islamic central bank governance model that systematically internalizes Maqasid al-Shari'ah (Islamic principles) into the monetary policy cycle, from target formulation and instrument selection to transmission evaluation and public accountability. This model does not reject the principle of price stability but instead positions it as an integral component of a broader framework of public welfare. The following section will discuss the model formulation methodology, an analysis of the suitability of Islamic monetary instruments to the Maqasid principles, and a simulation of a performance indicator framework that can be adopted by monetary authorities in countries with significant Muslim populations.

Institutional Architecture Design of Islamic Central Bank Governance Model

The institutional architecture of an Islamic central bank is a systemic framework encompassing organizational structure, policy-making mechanisms, and operational instruments based on Sharia principles. Unlike conventional central banks, which focus on price stability and inflation control, Islamic central banks have broader objectives, namely creating economic stability while simultaneously realizing distributive justice and social welfare. From this perspective, the central bank functions not only as a monetary authority but also as an institution that integrates Islamic normative values into macroeconomic policy. (Ibrahim, 2021)

In the context of governance, Islamic central banks must adopt good governance principles aligned with Sharia principles, such as transparency, accountability, justice ('adl), and trustworthiness. These principles serve as the foundation for designing policies that are not only economically efficient but also ethical and equitable. Furthermore, the Sharia Supervisory Board

(SSB) is a crucial element in the institutional architecture, ensuring that all policies and instruments used do not conflict with Sharia principles.

The Islamic central bank governance model also demands integration between monetary policy and the objectives of the maqasid sharia (Islamic principles). Maqasid sharia, which encompasses the protection of religion (hifz al-din), life (hifz al-nafs), intellect (hifz al-'aql), descendants (hifz al-nasl), and property (hifz al-mal), serves as the normative basis for formulating economic policy. Therefore, monetary stability is measured not only by low inflation but also by the extent to which these policies can improve public welfare in a just and sustainable manner.

In its implementation, Islamic central banks use monetary policy instruments that differ from conventional systems, namely those that are free from usury and based on Sharia contracts. These instruments include Bank Indonesia Sharia Certificates (SBIS), central bank sukuk, and Sharia-based minimum reserve requirements. The use of these instruments demonstrates that liquidity control and financial system stability can be maintained without the use of interest mechanisms, but rather through profit-sharing schemes and real transactions.(Ascarya, 2012)

However, the development of the institutional architecture of Islamic central banks in Indonesia still faces structural challenges, including the dominance of the conventional financial system which maintains interest-based logic as the global standard.(Perdana et al., 2025) The limitations of sharia monetary instruments such as SBIS and BI sukuk, as well as the low level of sharia financial literacy in the community(Rahmah et al., 2025) This hinders the optimization of the role of Islamic central banks. Therefore, an adaptive and innovative institutional design is needed through the integration of monetary, fiscal (zakat/waqf), and macroprudential policies, as well as strengthening literacy through strategic collaboration between Bank Indonesia, the Indonesian Ulema Council (MUI), and relevant ministries.

Overall, the institutional architecture design of Islamic central banks is an integrative effort between the modern economic system and sharia values.(muhammad raihan Pascasarjana & Syariah, 2024) The ideal governance model is oriented not only toward economic stability but also toward social justice and sustainability through the maqasid al-shari'ah approach. By embracing maqasid as the basis of policy, Islamic central banks are expected to create a more inclusive, stable, and equitable economic

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system, as demonstrated by the contribution of Islamic financial inclusion to the empowerment of MSMEs and poverty alleviation.(Prilevi et al., 2020)

Operationalization of Monetary Instruments Based on Maqashid

The operationalization of monetary instruments based on maqashid sharia is a policy approach that integrates sharia objectives into the financial system, not only oriented towards macroeconomic stability.(Soemitra et al., 2021) In this system, conventional instruments such as open market operations and interest rates are modified into sharia-based instruments such as SBIS, central bank sukuk, and profit-sharing contracts.(Cahyani et al., 2025) This approach emphasizes that monetary policy must provide benefits and avoid harm to the wider community, so that it is technocratic as well as ethical and spiritual.(Syarat et al., 2024)

From the perspective of the maqashid sharia (Islamic principles), the operationalization of monetary instruments is directed towards safeguarding five primary objectives: the protection of religion (hifz al-din), life (hifz al-nafs), reason (hifz al-‘aql), posterity (hifz al-nasl), and wealth (hifz al-mal). In an economic context, the primary focus lies on protecting wealth through equitable distribution, stabilizing the value of money, and preventing usury and excessive speculation. Therefore, monetary instruments aim not only to control the money supply but also to ensure that economic activity is conducted in a lawful, just, and productive manner.(Endaryono et al., 2024)

Furthermore, the operationalization of monetary instruments based on the maqasid sharia also requires institutional transformation within the central bank. The central bank functions not only as an inflation controller but also as an institution that ensures the achievement of social welfare through inclusive monetary policy. Instruments such as SBIS and central bank sukuk are used as interest-free liquidity control tools, thus better aligning with sharia principles and reducing economic inequality. This demonstrates that monetary policy in Islam has two dimensions: economic stability and social justice.(Schumacher et al., 2025)

Furthermore, the implementation of monetary instruments based on the maqasid sharia is also influenced by the level of Islamic financial literacy, the development of Islamic financial markets, and government regulatory support. The limited availability of Islamic instruments compared to conventional instruments is a major challenge in operationalizing this policy. Therefore, continuous innovation in monetary policy is needed to meet the needs of the modern economy without abandoning Islamic principles.(Cahyani et al., 2025)

Overall, the operationalization of monetary instruments based on the principles of Islamic law (maqasid sharia) represents an integrative effort between Islamic economic theory and modern monetary policy practice. This approach emphasizes not only economic efficiency but also justice, sustainability, and societal welfare. Thus, the Islamic monetary system is expected to be a more stable and equitable alternative to the conventional interest-based system.

Implementation Challenges and Policy Transition Roadmap

The challenges of implementing Sharia-based monetary policy are fundamentally related to the continued dominance of the conventional interest-based financial system in the national and global economic structure. This situation creates a dependency on conventional monetary instruments, thus limiting the scope for Sharia monetary policy. Furthermore, the limited availability of liquid and diverse Sharia financial instruments also hinders effective money management. In Indonesia, although instruments such as Bank Indonesia Sharia Certificates (SBIS) and sukuk are available, their use is still not as optimal as conventional instruments due to market limitations and limited participation of economic actors.

Another challenge is the low level of Islamic financial literacy and inclusion in society, which results in a lack of understanding of the mechanisms and advantages of the Islamic monetary system. This leads to a preference among the public and businesses for conventional systems, which are considered more practical and familiar. Furthermore, human resource and institutional readiness are also crucial factors, given that implementing Islamic monetary policy requires a deep understanding of contracts, Islamic principles, and their integration with macroeconomic policies.(Nasional et al., 2024)

To address these challenges, a structured and gradual policy transition roadmap is needed. This roadmap includes strengthening regulations and institutions, developing more varied and liquid Islamic monetary instruments, and increasing Islamic financial literacy in the community. Furthermore, integration between monetary, fiscal, and real sector policies is key to supporting the effectiveness of the Islamic monetary system. Central banks need to develop an adaptive dual system strategy, where the conventional and

Islamic systems operate in parallel while gradually strengthening the Islamic system's role.

Furthermore, the policy transition roadmap must also adhere to the principle of maqasid sharia as its primary objective, namely realizing economic welfare and justice. This means that every policy adopted must consider not only economic stability but also its impact on the distribution of social welfare. With this approach, the transition to a sharia monetary system will be not only technical but also transformational, capable of creating a more inclusive, equitable, and sustainable economic system.(Ojk, 2020)

Overall, the implementation of Islamic monetary policy requires a strong commitment from the government, monetary authorities, and economic actors. Existing challenges must be addressed through policy innovation and continuous institutional strengthening. With a clear and focused roadmap, the Islamic monetary system has significant potential to become a more stable and equitable alternative economic system in the future.

CONCLUSION

Overall, the integration of the maqasid of sharia into monetary governance marks a paradigm shift from an approach solely oriented toward price stability to a system that prioritizes welfare and social justice. The institutional architecture of Islamic central banks requires synergy between sharia principles, interest-free monetary instruments, and transparent and accountable governance mechanisms, ensuring that monetary policy is not only technically effective but also ethically sound. The operationalization of maqasid-based monetary instruments strengthens the central bank's role in maintaining stability while encouraging fairer economic distribution through real-sector financing and financial inclusion. However, its implementation still faces structural challenges such as the dominance of conventional systems, limited instruments, and low sharia financial literacy. Therefore, a gradual, adaptive policy transition roadmap integrated with fiscal and real-sector policies is required. With this approach, the Islamic monetary system has the potential to become a more inclusive, stable, and equitable alternative in addressing global economic dynamics.

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