Republic of Türkiye

Social Sciences University of Ankara

Institute for Islamic Studies

Islamic Economics and Finance Department

THE USE OF ISLAMIC FINANCE PRACTICES AS CENTRAL BANK MONETARY POLICY INSTRUMENTS

Master Thesis

Selahattin BİNGÖL

Ankara

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ACCEPTANCE AND APPROVAL PAGE

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The Qur'an begins with the Fatiha and Fatiha begins with Al-Hamd. As a matter of fact, the hamd on this earth is only to Allah. Allah Almighty has granted me to finish this work, which I started with Besmele, with hamd and thankfulness; thanks to Allah. Almighty Allah has granted me many beauties; thanks to Allah. I hope that I have been able to fulfill this gratitude with this work. I also know that all written works, except the Qur'an, were written by human hands. It is the nature of human beings to make mistakes.

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ABSTRACT

Islamic finance is a concept that become increasingly popular due to the accumulation of capital in Islamic countries. The whole world is in search of an economic alternative, as economies dominated by conventional economics are constantly engaged in crisis-inducing transactions. Islamic finance seen as an alternative to conventional economics for reasons such as not introducing interest directly into economic equations, adopting a full reserve system, not tolerating speculative attacks due to the avoidance of uncertain transactions. However, in many countries practicing Islamic finance, the market is managed by Central Banks established in accordance with the principles of conventional economics. In these markets, both participation banks and interest rate-sensitive investors cannot use the instruments determined by the Central Banks to achieve monetary policy objectives. The Central Banks generally pursue monetary policy with the aim of achieving price stability. The success of the determined policy depends on all actors in the market to act in accordance with this policy. In practice, since participation banks and interest-sensitive investors do not participate in the interest-bearing market. The main purpose of this thesis is to determine existing practices which used as monetary policy instruments by the Central Banks in order to achieve monetary policy objectives. In this context, firstly, objectives and instruments of monetary policy will be given in terms of conventional economics and then Islamic finance and after the principles on which the two economic systems are based and the differences between them are stated and finally the monetary policy instruments in selected OIC countries that can be used by the Central Bank for the success of Islamic finance practices will be given.

Keywords: Islamic Financial System, Islamic Monetary Policy, Central Bank, Monetary Policy, Price Stability

ÖZET

İslami finans son zamanlarda Müslüman ülkelerdeki sermaye birikiminden ötürü giderek popüler hale gelmiş bir kavramdır. Konvansiyonel iktisadın hüküm sürdüğü ekonomilerin sürekli şekilde kriz doğuracak işlemler gerçekleştirmesinden ötürü tüm dünya ekonomik bir alternatif arayışındadır. İslami finans; faizi direkt olarak iktisadi denklemlere sokmaması, tam rezerv uygulanması sebebiyle kaydi para oluşumuna izin vermemesi, belirsizlik içeren işlemlerden uzak durulması sebebiyle spekülatif atakları hoş karşılamaması gibi sebeplerden ötürü konvansiyonel iktisada alternatif olarak görülmektedir. Bununla beraber İslami finansı uygulayan çok sayıda ülkede piyasayı konvansiyonel iktisat esaslarına uygun olarak kurulan Merkez Bankaları yönetmektedir. Bu piyasalarda ise hem katılım bankaları hem de faiz hassasiyeti bulunan yatırımcılar Merkez Bankası tarafından para politikası amaçlarına varmak için belirlenen araçları kullanamamaktadırlar. Merkez Bankası, para politikasını genelde fiyat istikrarını sağlamak amacıyla sürdürmektedir. Belirlenen politikanın başarılı olması ise piyasada yer alan tüm aktörlerin bu politikaya bağlı olarak hareket etmesine bağlıdır. Uygulamada katılım bankaları ile faiz hassasiyeti bulunan yatırımcıların faizli piyasada yer almamasından ötürü para politikası amaçlarına varabilmek için seçilen ülkelerde Merkez Bankası tarafından para politikası aracı olarak kullanılan ürünleri belirtmek bu tez çalışmasının temel amacını oluşturmaktadır. Bu kapsamda öncelikle para politikasının tanımına, tarihçesine, amacına ve araçlarına önce konvansiyonel iktisat sonrasında da İslami finans açısından yer verilecek, iki iktisadi sistemin dayandığı esaslar ve aralarındaki farklar belirtildikten sonra seçilen OIC ülkelerinde uygulanan bazı para politikası araçları değerlendirilecek ve İslami finans uygulamalarının başarılı olması için Merkez Bankası tarafından kullanılabilecek bazı para politikası araç önerilerine yer verilecektir.

Anahtar Kelimeler: İslami Ekonomik Sistem, İslami Para Politikası, Merkez Bankası, Para Politikası, Fiyat İstikrarı

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AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ABN AMRO	Algemene Bank Nederland and Amsterdamsche en Rotterdamsche Bank
BNM	Bank Negara Malaysia
BNMN-i	Bank Negara Monetary Notes-i
BNP Paribas	Banque Nationale de Paris and Paribas
BOTAŞ	Boru Hatlari ile Petrol Taşıma Anonim Şirketi
CBPP	The Central Bank Participation Paper
CBRT	Central Bank of the Republic of Türkiye
CIBAFI	General Council for Islamic Banks and Financial Institutions
CMCs	Central Bank Musharaka Certificates

ECB	European Central Bank
FED	Federal Reserve
GDP	Gross Domestic Product
GICs	Government Investment Certificates
GII	Government Investment Issue
GMCs	Government Musharaka Certificates
HSBC	The Hong Kong and Shanghai Banking Corporation
HZ	Hazrat
IAB	Islamic Accepted Bills
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
IIIR	International Islamic Rating Agency
IILM	The International Islamic Liquidity Management Corporation
IIMM	Inter Bank Money Market
IMF	International Monetary Fund
INI	Islamic Negotiable Instruments
MD	Money demand
MII	Mudarabah Interbank Investment
NPP	The National Participation Paper
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Countries
PTT	Posta ve Telgraf Teşkilatı Genel Müdürlüğü
RA-i	Ar Rahnu Agreement-I
S	Supply

SAMA	The Saudi Monetary Agency
SAV	Sallallâhu Aleyhi ve Sellem
SBBA	Sell and Buy Back Agreement
SBNMI	Sukuk BNM Ijarah
SFSC	The Sudan Financial Services Company
SMC	Cagamas Mudarabah Bonds
TKKB	Turkey Participation Banks Association
US	United States
USD	United States Dollar
WI	When Issue

INTRODUCTION

If the monetary policy instruments used by the Central Bank to achieve monetary policy objectives are regulated according to the principles of conventional economics, it will not be suitable for participation banks operating in accordance with the principles of Islamic finance and interest-sensitive investors to use these instruments. This will prevent the Central Bank from achieving its monetary policy objectives since it cannot reach all actors in the market. Within the scope of our study, monetary policy instruments that can be used by the Central Bank in accordance with Islamic financial principles will be determined in selected countries that the Central Bank can achieve its monetary policy objectives more easily if these instruments are used.

1. Background of the Study and Problem Statement

Monetary policy is conducted by Central Banks. The main objective of the Central Bank when implementing monetary policy is to ensure price stability. [1]

To ensure price stability, the Central Bank needs the cooperation of domestic financial institutions and other investors in the use of monetary policy tools to achieve price stability.

At a time when Islamic finance is gaining power, conventional economics is losing its power. Conventional economics is often associated with crises all over the world. Economic crises caused by conventional economic principles have swept the world and caused irreparable damage to both national and individual economies. The last large-scale crisis, which emerged in the US in 2008, spread very quickly in the globalized world, causing the collapse of companies with balance sheets larger than the economies of many countries and victimizing almost the entire world.

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[1] CBRT (2023), "Post-1980 Period", https://www.tcmb.gov.tr/wps/wcm/connect/EN/TCMB+EN/Main+Menu/About+the+Bank/History

In 2020 and the following period, with the spread of cryptocurrencies all over the world, a large number of people either lost their financial assets or suffered from many mental illnesses as a result of speculative and non-economic attacks. In this period, Islamic finance began to gain strength, as the principles on which Islamic finance is based are the strongest alternative to conventional economics. Today, even institutions such as the IMF are commissioning scientific research on whether Islamic finance can be a solution to crises, and a country such as the UK is the largest-scale global example of Islamic finance.

This positive reaction, increasing share and positive expectations for the future of Islamic finance have changed the fields of Islamic finance. Islamic finance, which in the past developed approaches to basic economic principles, has rapidly started to focus on advanced topics of economics such as monetary policy and reserve banking in the last 10 years. For this reason, the studies available in the literature on monetary policy in Islamic finance are not in a position to fully meet all needs.

The tools used by the Central Bank which operates in accordance with the principles of conventional economics, to achieve monetary policy objectives are fundamentally incompatible with Islamic finance principles. For this reason, participation banks and interest-sensitive investors cannot use interest-based monetary policy tools. Therefore, this study will determine existing monetary policy instruments that Central Banks can use to achieve their monetary policy objectives.

Since participation banks cannot use interest-based instruments in the current system, participation banks have a competitive disadvantage against banks operating on conventional principles.

2. Problem Statement

The economic success of a country depends on how monetary policy is implemented. The adoption of the monetary policy instruments determined by the Central Bank by the banks affects the success of monetary policy. Central banks in countries with a conventional economic system generally choose interest-based instruments as monetary policy instruments. For this reason, participation banks that avoid interest-bearing transactions cannot use Central Bank instruments.

The inability of participation banks to use the monetary policy instruments of the Central Bank has two reflections; the first of these is the inability of the Central Bank to deepen in the financial market in a way to achieve its monetary policy objectives. The second reflection is that participation banks experience a competitive disadvantage compared to conventional banks. For this reason, in this study we will propose products that will both regulate the relations of participation banks with Central Banks and eliminate their competitive disadvantage with other banks. In addition, the fact that the principles of Islamic finance are quite different from the principles of the conventional system requires that the products to be proposed should also carry the principles of Islamic finance. In this context, the main problem of this study is to identify products that can be used as monetary policy instruments by Central Banks in accordance with Islamic finance principles.

3. Research Question

To achieve the research objectives, the research question has been identified as follows: Are there any monetary policy tools that can be implemented by the Central Bank/s for both participation banks and individual investors who has Islamic sensitivity?

4. Methodology

The study focuses on determining the monetary policy instruments that are suitable for Islamic economics after specifying the differences between Islamic economics and conventional economics. For this reason, first of all, the case study method was adopted and more qualitative research was conducted. After determining the current situation related to the subject, academic resources for this situation were searched. The principles of Islamic economics are stated over the issues determined by the examination of the academic resources mentioned above.

After specifying the principles, the monetary policy instruments used by the Central Banks in accordance with Islamic economics in the countries implementing the dual economic system were examined on the websites of the Central Banks of the countries.

The aspect of Islamic economics that focuses on macroeconomic issues has not yet developed sufficiently. However, the products mentioned in the study have not yet been actively applied to give a positive result. For this reason, while the products used by some countries are specified in the study, the advantages and disadvantages of these products are hypothetically stated within the study. Therefore, no statistical analysis could be made on the economic effects of these products.

5. Organization of the Thesis

In addition to introduction and conclusion, the study consists of three chapters. First chapter covers the definition, objectives, instruments and history of monetary policy adopted by conventional economics are given.

In the second chapter, the differences between both systems are mentioned the monetary policy tools that both systems can use together are mentioned. In the third chapter, the conditions for the success of Islamic finance and the monetary policy tools adopted by the countries for Islamic finance are specified for the selected countries (Malaysia and Pakistan selected because of their background for Islamic finance.) and the monetary policy tools that can be applied by the Central Bank are specified and our study is concluded.

CHAPTER ONE

HISTORY, OBJECTIVES, AND INSTRUMENTS OF MONETARY POLICY

In this part of our study, the definition of monetary policy, the history of monetary policy, the objectives and instruments of monetary policy, and the way the instruments should be used to achieve the objectives of monetary policy will be discussed.

1.1 Definition of Monetary Policy

Monetary policy is defined similarly in both conventional and Islamic finance. This agreement on the definition of the concept changes when it comes to the objectives and instruments of monetary policy.

Acemoğlu defined the Central Bank as a state institution that monitors financial institutions, controls some important rates and directly or indirectly manages the money supply. He also called all the activities carried out by the Central Bank as "*monetary policy*" (Acemoğlu et al., 2016). On the other hand, Tabakoğlu defines monetary policy in the most general way as the adjustment of money supply and demand in accordance with the objectives of price stability, full employment, balance of payments, economic growth and income distribution. (Tabakoglu, 2013). Also, Warjiyo and Agung define monetary policy as the actions of the government, through the Central Bank, to control the money supply as part of economic policy. (Agung et al., 2002).

Mishkin defines monetary policy as the actions taken by the central bank to achieve high employment, economic growth, price stability, interest rate stability, exchange rate stability, and financial market stability by using variables such as interest rates, the amount of credit, and the money supply. (Mishkin, 2006).

As shown in different definitions, monetary policy may include operations such as determining credit interest rates, being the final interbank lending authority, and if monetary policy is implemented successfully, it will lead to positive results such as the establishment of domestic economic balance, realisation of high economic growth, price stability, realisation of a balanced development, realisation of external economic balance, balance of payments balance, and in this way, macroeconomic objectives that can be measured through values such as employment and price stability can be achieved (Wisandani and Ismal, 2017).

1.2 History of Monetary Policy

The history of Central Banks, which are similar to today's structure with all their functions, can be traced back to the 17th century. Founded in 1668, Sveriges Riksbank was the first Central Bank in history.[2] Founded in 1694, the Bank of England is the second Central Bank in history.[3] The purpose of the Bank of England at the time of its establishment was stated as "*to ensure the peace of mind of the people of England by ensuring monetary and financial stability*". This objective is still maintained by the Bank today.

In 1880, most countries adopted the gold-based monometallism system. Countries indexed their local currencies to gold. The confidence in the monetary system eroded during the Great Depression. In the period that followed, Central Banks made some changes in the system due to the need to bear the financial burden of the Second World War. After the Second World War, the Bretton Woods era began.

A new era began with the dollar as the cornerstone of the entire system, and in the 1950's, the world's gold stock was no longer sufficient to finance world trade. In the previous period, the US dollar was printed in an amount corresponding to the amount of gold in the market, but now the US Federal Reserve started to print dollars at a level exceeding the amount of gold in the market. So the Bretton Woods system was completely terminated in 1971.

Therefore, the monetary policy pursued after 1971 had nothing to do with the amount of gold available; until this period, the Central Bank had gold in its reserves in exchange for the paper

[2] Retrieved from Riksbank (n.d.) The Riksbank's 350th Anniversary. https://www.riksbank.se/en-gb/about-the-riksbank/history/the-riksbanks-350th-anniversary/ Access date:31.07.2022.
[3] Retrieved from Bank of England (n.d.) Our History. *https://www.bankofengland.co.uk/about/history*, Access date:31.07.2022

money in the market, which constituted a discipline for the monetary policy to be followed by the Central Bank. After this period, the world faced two severe experiences, namely high inflation and excessive volatility in exchange rates; that prices increased more than 14 times worldwide in the 1971-1990 period. The fact that prices increased by only 33% in the UK between the 18th century and 1940 demonstrates how dangerous inflation is in raising prices (Chapra, 1996).[4]

The process outlined above by Chapra; use of the US dollar as the main currency for foreign trade in the world economic system, without any criteria, has enabled the argue about United States to determine the direction of the world economy.

When they were first created, central banks had only very basic task of printing money. These traditional tasks of Central Banks have changed with changing economic conditions and have evolved into the complexity as they are today. In his study, Blinder summarized the tasks that traditional Central Banks should fulfill as follows; (Blinder, 1999)

- Printing money,
- Regulating the banking system,
- Adjusting liquidity in the banking system through various channels,
- Assisting the government by raising funds from the market,
- Promoting competition while at the same time maintaining market stability,
- Advising the government on economic matters,
- Making development plans according to priority areas for development,

The points showed by Blinder illustrate the most basic tasks of a Central Bank, which have become more complex over time. Therefore, the Central Bank of any country was obliged to fulfill the above-mentioned tasks regardless of the monetary policy objective it was aiming for. For this reason, for many years, Central Banks have taken similar steps towards the same

[4] In this paragraph, the views of Chapra are summarized.

objective. In the rapidly changing and transforming world after the 1970s, the Central Bank did not only fulfill the above-mentioned tasks.[5]

Today, Central Banks perform many different functions in addition to the tasks they performed in the past. In fact, Central Banks are now referred to as "*Modern Central Banks*". For example, an institution such as the European Central Bank was created, which would have been unthinkable in the past, and paved the way for a supreme authority over the monetary policies of many countries. In the functions specified by Blinder, there was usually a reference to the government and Central Banking was associated with the government. Today, a supreme authority such as the European Central Bank performs functions on monetary policy in many different areas by restricting the sovereignty of states in fiscal matters (Turna, 2014).

The instruments that constitute the subject of our study and that will enable Central Banks to achieve their monetary policy objectives are products that can be implemented by Central Banks defined as modern. Moreover, the concept of Modern Central Banks is not yet a finalized concept. The concept is still alive and changing in response to emerging needs. Therefore, rather than defining the concept and specifying the functions of modern Central Banks, it will be sufficient to state that the products to be proposed in this study can be used as monetary policy instruments by modern Central Banks.

1.3 Objectives of Monetary Policy

The most important objective that both traditional and modern Central Banks seek to achieve through the use of monetary policy today is to maintain the purchasing power of the national currency by ensuring price stability. The purchasing power of money is called inflation in the domestic market and exchange rate in the foreign market. Therefore, the most important

[5] Since our study is aimed at suggesting instruments that Central Banks can use in the modern era, we have been contented with presenting the theoretical background rather than giving detailed coverage to the practices of Central Banks in the past or similar practices all over the world, and we have adopted the method of covering today's Central Bank practices in the relevant sections of our study to the finest details.

objective of Central Bank is keeping both the exchange rate and inflation under control by maintaining the purchasing power of money (Zulkhibri et al., 2016).

Today, Central Banks also have objectives to fulfill the requirements of the national economy such as supporting economic growth, increasing employment opportunities, eliminating inequalities in income distribution in a way to ensure social peace, and increasing social welfare. Although these objectives are implicitly directed towards the process of achieving price stability, it is also possible to define them as auxiliary objectives that can be used to achieve the main objective.

As mentioned above the objectives of Central Banks have both changed and developed over time. Central Banks, which operated for very simple purposes in the past, now have more serious and broader objectives, and that the current objectives of Central Banks may diversify even more in the future due to the change and development of economic activities (Zulkhibri et al., 2016). Zulkhibri also states that Central Banks, which in the past operated only for the purpose of printing money, now have objectives such as monetary authority, macroprudential authority, microprudential authority, payment system authority, real sector authority, and these objectives will diversify even more in the future. Lamfalussy also stated that the following conditions should be met in order to eliminate the incompatibilities that may arise between the instruments that central banks have today and the objectives that may emerge in the future.

- Comprehensive framework of monetary policy under dual financial system,
- Well defined responsibility for financial stability,
- Reassume its macroprudential authortiy,
- Meet the challenge of efficient, safe swift payment system,
- Have access to the real sector (Zulkhibri et al., 2016).

Mishkin argues that there are basically three different types of monetary policies, that Central Banks use three different types of instruments for these policies and that there are ultimately two different objectives (Mishkin, 1999).

Table 1 Types of Monetary Policy and Objectives

Policy	Instrument	Target
Inflation Targeting	Overnight Rate	Inflation Rate
Monetary Targeting	Money Supply Growth	Exchange Rate
Exchange Rate Targeting	Spot Currency	

(Source:Mishkin, 1999)

The CBRT defines its main objective as to ensure price stability. Price stability refers to a low and stable inflation rate that is low enough not to affect the decision-making processes of economic agents. The Central Bank Law also states that the Bank will directly determine the monetary policy to be implemented and the monetary policy instruments to be used in order to achieve price stability; in other words, the Central Bank has instrument independence[6]. Accordingly based on stated objectives, it seems that the objectives desired to be realized by the Central Banks in countries where conventional economics is applied are also in line with the principles of Islamic finance. For this reason, it is understood that the objectives of the Central Banks are universal in nature and that differences arise in terms of the instruments used to achieve this objective.

The table above (Table 1) shows that Central Banks actually have (2) main objectives and that this objective can be achieved through different instruments. However, it is not possible to achieve the stated objective if any instrument is used directly.

There are various procedures to be followed by the Central Bank in order to achieve the stated objectives. In the literature, it is stated that for the Central Bank to be successful, it should set an objective and achievable final objective, there should be intermediate targets to be achieved to reach this objective and these intermediate targets should be defined objectively. In addition, it is accepted that the instruments to be used to achieve intermediate objectives should be determined and all the issues mentioned so far should be implemented in an orderly manner.

[6] Retrieved from CBRT (n.d.) Central Banking in 100 Questions.

Monetary policy is the effort to achieve economic objectives by using monetary instruments" and the objectives to be achieved are listed as: "ensuring economic growth, combating inflation, preventing unemployment and improving foreign trade." (Eğilmez, 2009).

As a result of the evaluation of all the mentioned issues together; it is understood that the ultimate objective of the Central Bank is to achieve objectives such as ensuring economic growth, combating inflation, reducing unemployment, developing foreign trade by using monetary policy, in order to achieve these objectives, it is necessary to set intermediate objectives that will ensure the achievement of the objective, and the intermediate objectives should be of a nature that will ensure the achievement of the ultimate objective.

1.4 Monetary Policy Instruments

The Central Bank has to use various instruments to achieve its monetary policy objectives. The number of instruments to be used by the Central Bank has increased considerably in countries where conventional economics is practiced as a result of changing technology and economic conditions.

Monetary policy strategy is formed by the Central Bank in order to achieve economic objectives such as price stability, fair income distribution, full employment, stability in the financial sector, stability in the real sector. Central Bank determines the instruments to be applied by analyzing the economic dynamics of the country for this strategy. Each country can have its own monetary policy instrument. Some countries can also use common monetary policy instruments. Central Bank is the sole authority in determining the policies to be implemented, strategies to be formed and instruments to be used for monetary policy. (Güvenilir, 2017).

Choudry et al. divide the instruments used to achieve monetary policy objectives into two categories as direct and indirect instruments and summarize them as follows (Choudhry and Mirakhor, 1997):

Table 2 Monetary Policy Instruments

Direct	Indirect
Interest Rate Controls	Reserve Requirements
Bank Credit Ceiling	Rediscount Window
Statutory Liquidity Ratio	Overdraft Window
Directed Credit	Public Sector Deposits
Bank Rediscount Quota	Open Market Operations

(Source: Choudhry and Mirakhor, 1997)

Akçay states the criteria used to distinguish monetary policy instruments as direct or indirect as follows:

a) Direct monetary policy instruments directly determine or limit either prices (interest rates) or quantities (credit/deposits) through regulations. Indirect monetary policy instruments, on the other hand, aim to achieve monetary policy objectives by affecting supply/demand conditions in the market. Therefore, if the Central Bank uses indirect monetary policy instruments, the final outcome of the transaction is determined by the markets, even though Central Bank transacts in the market.

b) Indirect monetary policy instruments mainly affect the balance sheets of institutions in the financial system (commercial banks, etc.) and on the other hand, aim to directly affect the balance sheets of the Central Bank (Akcay, 1997).

Akçay, using the above-mentioned criteria, analyzes the monetary policy instruments used by the Central Bank in accordance with the distinction made by Choudry et al:

Direct monetary policy instruments;

- Interest rate controls: The central bank can limit interest rates on deposits/loans of banks and other financial institutions. The central bank can encourage sectors that need to develop by applying low interest rates to those sectors that need to be encouraged.
- Credit ceilings: Credit ceilings are set higher for sectors that the Central Bank wants to support, while credit ceilings are set lower for sectors whose development is to be restricted.

- Reorganization of financial intermediaries' portfolios: The Central Bank can determine the sector to which securities such as bonds/share certificates that financial intermediaries should belong. In making this determination, the Central Bank can support different sectors during periods of economic growth or stagnation, or it can support the sector that needs to be protected or supported at any time.
- Control of consumer credit: The Central Bank can encourage or restrict the demand for credit, especially for housing and installment sales of consumer goods, by setting important criteria such as down payment rates, maturities or interest rates.

Indirect monetary policy instruments;

- Rediscount rates: Rediscount is the rediscounting of outstanding bills discounted by banks to the Central Bank by making commission-like payments at the rediscount rate. By changing the rediscount rates, the Central Bank can affect the amount of money in the market.
- Reserve requirements: It is the process of keeping a certain proportion of certain liabilities at the Central Bank. With the reserve requirement ratio to be determined by the Central Bank, the amount of money in the market is affected and the transaction is carried out for monetary policy purposes.
- Open market operations: These are transactions in which the Central Bank basically buys and sells securities for buyers in the market. Open market operations are the fastest way for the Central Bank to intervene in the market and the amount of liquidity in the market (Akcay, 1997).

On the other hand open market operations are the most frequently used instrument by the Central Bank, that open market operations are superior to other monetary policy instruments and explained the reason for this situation through the following factors:

- Since open market operations are conducted in both money and capital markets, they are more convenient than other monetary policy instruments.
- Since open market operations are conducted by the Central Bank itself, the volume of transactions will be under its control.

- Compared to other monetary policy instruments, open market operations are more flexible in terms of both maturity and quantity.
- If the Central Bank makes a mistake while implementing monetary policy, it can use open market operations to correct the mistake by making a reverse transaction immediately. (Guvenilir, 2017).

As a result of the evaluation of the issues mentioned, it is understood that the Central Bank has the authority to determine the monetary policy objectives and to choose the instrument to be used to achieve these objectives. That the instruments chosen by the Central Bank can be direct or indirect. Direct monetary policy instruments will have direct results in the market and that the effect of indirect monetary policy instruments will emerge over time and according to the reaction of the market.

CHAPTER TWO

LITERATURE REVIEW AND MONETARY POLICY FROM ISLAMIC FINANCE PERSPECTIVE

When discussing the history of Islamic finance, it is necessary to start with the knowledge that Muslims did not talk about the Central Bank and monetary policy in today's sense until they lost their economic power and independence. Economics in today's sense stands out as the only branch of science in Islamic history that is derived from developing knowledge and is not based on a pure Islamic foundation. (Egri and Orhan, 2020).

Therefore, in this part of our study, which will touch upon the history of Islamic finance, it is thought that it will be useful to state that Islamic finance in today's sense was not in question for many years, that monetary policy was not consciously used for monetary policy purposes, and that both the rulers of the period and the employees of institutions related to monetary policy did not have any knowledge of monetary policy in today's sense.[7]

Although the first academic studies on Islamic finance were carried out by the aforementioned names about 40 years ago, it is understood that Islamic finance has not

[7] Money was not important in world economic history until the 18th century, and monetary policy as we know it today was not carried out. Therefore, it is not possible to talk about a monetary policy in the Western paradigm. In the process that emerged with Adam Smith, all importance was attributed to the real sector and no work was done on the value of money in economic terms. It was mathematically proven by Smith that only the real sector was important. The theoretical appreciation of money all over the world was realized with the emergence of the Great Depression. With Keynes, The General Theory of Employment, Interest and Money, the Western world began to experience theoretical developments in monetary policy. Since a large part of the Islamic world was under colonization during this period, it is not possible to say that any theoretical work on Islamic finance or monetary policy in the Islamic world was carried out or that there was an effort to put it into practice.

realized the expected development in academic terms and the number of academic resources or studies on Islamic finance remains at a low level. As a result of the literature review conducted by EFE; the results stated in the table below have been reached: (Efe, 2018).

Table 3 Literature Review on Islamic Finance

Topic	Number	Language
Monetary Policy	65.938	English or Others
Credit Policy	3.821	English or Others
Islamic Finance	189	English or Others
Islamic Monetary Policy	144	English or Others
Monetary and Credit Policy	38	English or Others
Islamic Credit Policy	2	English or Others
Islamic Finance	10	Turkish
Monetary Policy	478	Turkish
Credit Policy	4	Turkish
Islamic Monetary and Credit Policy	0	Turkish

(Table derived by author.)

If we interpret the above table, we can say that academic studies on Islamic finance are very few in the world, the number of publications on monetary policy in accordance with the Islamic financial system is less than 1% of the number of publications on monetary policy in conventional economics, there are almost no publications, especially in Turkish literature, and it is thought that encouraging publications on Islamic finance is essential for the success of the Islamic financial system.

2.1 Literature Review

Several academic studies on Islamic economics were carried out by Muhammad Hamidullah. Hamidullah wrote an article on Islamic economics in 1936, although there is no institutional background yet for Islamic economics. Hamidullah expressed his ideas in the field of Islamic economics by writing 15 different articles between 1936 and 1986. Hamidullah first set out on religious concepts and drew the institutional framework for the field of Islamic economics for the first time, and similarly, he was the person who published the first book chapter under the name of Islamic economics.

After the oil crisis in the 1970s, academic studies on Islamic economics gained momentum due to the increase in capital accumulation in Islamic countries. At the same time, due to the positive results obtained as a result of the application of Islamic economics in terms of microeconomics, the suitability of Islamic economics for macroeconomic purposes began to be discussed. The first studies on the monetary policy of Islamic economics were also published in this period.

Al Jarhi published his work "A Monetary and Financial Structure for an Interest-Free Economy: Institutions, Mechanism & Policy" in 1980. In this study, Al Jarhi rejected the traditional view of money and stated that money has only use value. He said that the principles of Islamic economics contradict the principles of traditional economics and state that it is more resistant to crises.

Ariff published "Monetary Policy in an Interest-Free Islamic Economy - Nature and Scope" in 1982. In this study, Ariff evaluated some monetary policy tools implemented by traditional economy and observed whether these tools are suitable for Islamic economics.

Uzair published his work "Central Banking Operations in an Interest-Free Banking" in 1982. In this study, Uzair stated that interest should be excluded from the system, based on religious sources, and suggested the use of monetary policy instruments based on partnership, such as mudaraba, which can be implemented by Central Banks.

Chapra published his work "Towards a Just Monetary System" in 1985. The study in question has been the most important manifesto of Islamic economics as of the period. In the study, after stating why interest is prohibited in Islam, Chapra presented a theoretical background on how economies will work without interest. For this purpose, Chapra carried out an economic analysis, and after revealing the problems, he offered a solution proposal to eliminate these problems. In the solution proposal, the establishment of auxiliary institutions and the mention of new monetary policy tools to be determined to develop the Islamic money and banking system made the study valuable in terms of Islamic economics. After mentioning all these issues in his study, Chapra made warnings that are still valid today. According to that; abolishing interest and developing a system dominated by Islamic principles will not produce a positive result on its own unless Islamic countries establish their political institutions and gain independence.

Similar studies have started to be published in the Turkish literature, starting a few years after the developments abroad. A meeting called Money, Interest and Islam was organized by ISAV in 1984. In 1988, the book titled Research on Islamic Economics was published by the Islamic Economic Foundation. The mentioned works could not make a different contribution to the literature than the studies mentioned in detail above. Therefore, within the scope of this thesis, the studies carried out by Kazancı and Güvenilir in Turkish were examined.

Kazancı published his work titled Central Banks and Interest-Free Banking in 2020. Kazancı analyzed the monetary policies and money market instruments implemented by the central banks in the countries implementing the dual system, and analyzed the effects of these instruments on price stability and economic growth.

Güvenilir, published his master's thesis titled “Central Banking And Monetary Policy In The Context Of Islamic Economics” in 2017. In this study, she stated that the 2008 crisis revealed that conventional economics was not perfect, that the whole system was established based on interest, that the interest-free structure of Islamic economics was the most important alternative and revealed what monetary policy is, how it is implemented and how it can be applied in the context of Islamic economics.

2.2 Objectives of Monetary Policy in Islamic Financial System

In all economic systems, the ultimate objective of monetary policy operations to be carried out by the Central Bank is to achieve price stability. Also in the Islamic financial system, the ultimate objective of monetary policy is to achieve price stability. However, the secondary objective that the Islamic financial system wants to achieve the objectives of monetary policy is to walk on the path to achieve the ultimate goal without neglecting Islamic principles.

The following explanations have been given by leading experts in the field regarding the ultimate goals that Islamic finance seeks to achieve through the use of monetary policy instruments:

- Monetary policy in Islamic finance seeks to achieve the following objectives;

- ✓ All-inclusive economic prosperity with full employment and optimal economic growth,
- ✓ Socioeconomic justice and fair distribution of income,
- ✓ Stabilizing the value of money in order to make it a more stable store of value,
- ✓ Directing savings to investments,
- ✓ Providing services expected from the banking system (Tekdogan and Akkus, 2019),

- There are serious differences between capitalist economies and economies operating in accordance with Islamic financial principles due to the viewpoint of interest, and since the two systems are based on different foundations, the ultimate goal that the two systems want to achieve is also different, nevertheless, those who will apply Islamic finance should strive to achieve the goals appropriate to the Islamic financial system, regardless of the situation, and these goals basically consist of ensuring socioeconomic justice, equal distribution of income and wealth, and preserving the value of money so that it can remain as a means of exchange. (Chapra, 1983).
- Monetary policy to be implemented in the Islamic financial system aims to achieve results such as ensuring price stability, keeping the economic growth rate high, ensuring full employment, realizing economic welfare, ensuring justice in the distribution of income, and preserving the value of money. Also in his study, Al Jarhi emphasized that preserving the value of money is the most important objective and stated that monetary expansion can only be carried out when it contributes to the real growth of the country (Al-Jarhi, 1983).
- Monetary policy applied in the Islamic financial system should help to achieve the ideal society that Islam plans to bring people to, therefore, monetary policy in the Islamic financial system should realize the objectives such as economic welfare, socioeconomic justice, fair income distribution, setting payment standards that will not cause unfair competition, and directing savings to investments that will ensure development (Korkut, 2020).

- In the Islamic financial system, monetary policy has two main objectives, the Qur'an forbids living under the domination of others so the ultimate goal of all objectives is to achieve economic independence and in order to achieve this goal, there are some other objectives that the Islamic financial system must achieve and these objectives are explained as follows:

  a) Economic Justice: Based on the Qur'an, economic justice is to eliminate poverty for everyone and to guide everyone to wealth, and that in order to eliminate poverty, the state should pursue a policy to take care of the poor. Prophet (PBUH) was the best example in terms of directing people to wealth, that wealth was bestowed on people by Allah, and that wealth was not the monopoly of a certain group.

  b) Economic Growth: Monetary policy to be followed by Islamic finance must also realize the goal of economic growth, that economic growth can be measured in terms of national income per capita and Gross National Product, that as economic growth is achieved, firstly Islamic countries will be enriched, then the citizens of these countries will be enriched, and this enrichment will be benefical for both Muslims and Islamic countries (Izadi, 2018).
- The monetary policy to be conducted by the Central Bank of a country that has adopted the Islamic financial system should ultimately be to keep inflation under control, regardless of the method and instrument used, and the Central Bank should hold reserves in an amount that can intervene in the market in order to achieve this, the reserve should be capable of responding to both monetary fluctuations and problems that may arise in the level of employment, and the amount of reserves to be held should be determined by considering the nominal national product and employment rate of the country. (Sarker, 2016).
- In the Islamic financial system, the most important goal of monetary policy is to stabilize the value of money, Islam often emphasizes justice, the erosion of the value of money will erode the sense of justice, and if inequality arises among people, inequality will arise in the system over time, therefore, the Central Bank should follow a monetary policy to balance the supply and demand of money in a way to protect the value of money. (Guvenilir, 2017).

As a result of the evaluation of all the issues mentioned within the scope of our study: the injustices in economic life are mostly caused by not protecting the value of money, and if the value of money is not protected, the principles stated in the Qur'an will be violated, which will lead to inequality between the parties of the social relationship, and this inequality will harm social peace. It is also understood that this situation will harm the properties of money such as being fair, reliable, and a measure.

May people who suffer losses due to the lack of protection of the value of money may turn to interest-bearing instruments to compensate for their losses. This is contrary to the principles of the Islamic financial system. Therefore, it is imperative for the Central Bank to conduct a monetary policy that neither causes people to lose their rights nor to feel obliged to turn to interest-bearing alternatives. At the same time, it is believed that Islamic principles should be strictly adhered to while conducting monetary policy.

2.3 Differences between Islamic Financial System and Conventional Economic System

Even though both the Islamic financial system and the conventional economic system ultimately try to achieve the same goal with the policies they implement, there are also very serious differences between both economic systems due to the characteristic differences between them. Since the Islamic financial system has been seen as a very serious alternative to the conventional economic system which has been the dominant system all over the world for many years, there have been many academic studies on the differences between both systems.

2.3.1 Differences between Objectives

The capitalist system both allows private property in the market and protects property so intervention in the market is therefore frowned upon because the system protects the property acquired from the market. And market should be left alone because market will stabilize on its own. The Islamic financial system, on the other hand, cannot speak only of a market economy, it is not healthy to see the whole economic system as consisting only of mathematical values and profit calculations and also Islamic financial system does not directly intervene in the market. Example was from the time of our Probhet; Umar, who wanted to intervene in the market, was prevented by the our Prophet (PBUH).

In Islam, market intervention would only be relevant in cases of manipulation or speculation. Therefore, it is natural for the Islamic financial system to oppose the capitalist system, which considers any transaction legitimate for the purpose of making profit. Even 1,400 years ago, Islamic finance was the strictest protection of property rights and that Islamic financial system opposes transactions that are open to speculation and manipulation.

Interest, defined by conventional economics as the time value of money, cannot be accepted by Islamic finance because it is open to speculation. In the Islamic financial system, only monetary policy operations that affect the real side of the economy can be accepted by the Islamic financial system. Therefore, any monetary transaction that does not affect the real value of the economy is contrary to classical economic theory since it is not accepted by the Islamic financial system. In Islamic finance, if idle savings are directed to investment, investors become partners in profit and loss so Islamicial system is therefore contrary to Keynesian economic theory, which promises a fixed return on investment. (Egri and Orhan, 2020).

The most important area in which banking in the Islamic financial system differs from conventional banking is its perspective on interest, one of the most important goals in Islamic finance is to direct all savings to investment, one of the most important manifestos of the Islamic financial system is its view of money, Islamic financial economics sees money only as a means of exchange and should be evaluated in this way. (Taşçı, 2019).

According to Islamic finance, no money can be printed by the Central Bank without a reserve. Essentially, we can say this as a concluding sentence about the discovery of paper money: the invention of paper money is the cause; all economic problems are the result. Printing money by the Central Bank without a reserve will directly disrupt the natural functioning of the market. In addition, in order to solve the problems that may arise, a monetary policy in accordance with Islamic finance will be possible by adopting a full reserve policy. With the fractional reserve banking practiced today, it is possible for the market-distorting paper money to change hands multiple times in the market. This further increases the damage caused by paper money to the market.

We can illustrate this situation with the USD, which we have detailed above. The USD can be printed directly by the US without any provision, etc. In accordance with the basic principles of economics, printing money in a country without any return and in excess of the economic growth of the country will have a direct inflationary effect. Since the USD printed by the US is used in trade all over the world and the printed money is quickly taken out of the US, the US does not face any inflationary threat in the process of printing free money. Studies show that as of 10.08.2022, approximately 2.27 trillion US dollars are circulating in the market all over the world.[8]

There are no precious metals, etc., that can be used as counterparts for the coins issued by the United States. The most important reason why the US dollar circulates in the market today and does not cause any problems for the US is that it is used as the base currency in world trade.

If any two countries do not use the USD as the base currency in their commercial activities, this situation will indirectly reflect on the US economy. The efforts of countries to find USD when it is time to pay for the trade they carry out based on USD cause speculative movements within the country if the financial situation of the countries is not sufficient. If countries give up the USD, the country's currency will appreciate against the USD and the exchange rate will fall. The surplus USD in the hands of the country will return to the US over time and start to have an inflationary effect in the US.

As will be discussed in the recommendation section of this paper, trade between countries has always been based on the idea that trade between countries should be conducted in their own currencies. The realisation of this fact by countries and their gradual efforts to take the US dollar out of the system has led the US to try to maintain its superiority in different areas.

[8] Retrieved from Ycharts, 2022. US Currency in Circulation. https://ycharts.com/indicators/us_currency_in_circulation access date:15.08.2022.

Today, the US is trying to keep the USD circulating in the market by making countries dependent on its technical superiority in military terms. The US continues to make provocative statements about the conflicts between Russia and Ukraine, while acting in a way to escalate tensions between China and Taiwan. In addition to these efforts, the US, with the support of its trading companies, which today have more financial power than almost all of the world's largest economies, is driving up fuel prices around the world.

The conclusion we can draw from this is actually simple; the whole world is being deliberately and intentionally put into a crisis by the United States, just to maintain the dominance of the US dollar in the market. The Central Banks, which are supposed to respond to this crisis, cannot find a solution to the artificial crisis if they do not have sufficient foreign exchange reserves in their countries.

Speculative attacks due to the foreign exchange reserve deficit increase exchange rates. This leads to an increase in fuel prices, which are indexed to exchange rates. The increase in fuel prices, which is the most basic input of almost all sectors, indirectly causes a serious price increase and inflation in all sectors.

This inflationary environment, in turn, leads to the closure or downsizing of firms that are unable to resist and to a gradual decline in the quality of life of households that are unable to find solutions. In the end, it is understood that printing excess money is an illusion, that in the current world order, only benefits the US, which does not keep that money in its country and that the US is taking initiatives that will increase military, political and economic conflicts all over the world day by day due to the possibility that the money will return to the US and negatively affect the US economy.

One of the most important manifestos of Islamic finance is its reaction to the printing of excess money. It is obvious that if the monetary model proposed by Islamic finance is implemented all over the world, the situation of countries being exposed to high exchange rates and high inflation caused by artificial crises will end. This leads directly to the US reaction to the Islamic financial model.

As a matter of fact, research shows that the US is far behind in terms of Islamic finance. The USA is known as a country of freedom in every matter. All kinds of new products, especially in the financial sense, either spread to the market from the US or are in high demand in the US. In addition, the US has a considerably higher Muslim population compared to all other Western countries. Despite this, research which has carried by Dajani shows that the US is far behind in terms of Islamic finance (Dajani, 2021).

When all these issues are evaluated together, Islamic finance opposition to printing excess money, together with its rejection of interest, is powerful enough to disrupt the entire world economic paradigm. These two points constitute perhaps the most fundamental difference between Islamic financial system and the conventional financial system.

The most fundamental differences between the Islamic financial system and the conventional economic system are mentioned above. In addition, when the academic studies on the subject are analyzed, it is seen that there are differences between both economic systems, the details of which are given in the table below.[9]

Table 4 Differences of Islamic Financial System and Conventional Economic System

Conventional Economic System	Islamic Financial System
Economic life is subject only to legislation such as laws, regulations etc issued by the state.	Economic life is governed by state legislation as well as the Qur'an and Sunnah.
The only purpose of investments is profit maximization.	Investments are aimed at profit maximization as well as some social values.
Investments can be made in any field.	Investments can only be made in Islamically appropriate areas.
The system works with the difference between the interest received from the customer who uses credit and the interest paid to the customer who deposits.	The system operates on the basis of commission fees charged to the financing client.
Income can be earned by investing in a wide range of derivative instruments.	It is not possible to generate income by investing in derivative instruments as they involve excessive risk and uncertainty.

[9] The table has been compiled by author from the studies conducted by Toutounchian and Bacha and the studies conducted by other academics, Toutounchian, I. (2009), Islamic Money and Banking: Integrating Money in Capital Theory.

Interest rates determine the transactions with the customer. The financial institution is the lender.	The profit/loss ratio determines the transactions with the client. The financier is a business partner.
The products are known in detail by the customers.	Products are more questioned as customers are not fully aware of religious provisions.
The market share that can be reached is not limited to a specific region.	The market share that can be reached is basically only in Islamic countries.
It is sufficient to ensure individual welfare and profit maximization.	Concerned with ensuring social justice and increasing social welfare.
Uses interest in all transactions.	It rejects interest in all transactions.
When deposits are made, deposit insurance is a must as the depositor does not assume any risk.	When deposits are made, deposit insurance is not required as the depositor also assumes the risk of the business.
The projects to be financed are determined according to the interest rate to be charged.	The projects to be financed are determined by considering the social benefit to be provided.
Internal or external shocks faced by the borrower do not concern the financial institution.	Since there is a partnership between the firm and the financial institution, internal and external shocks are discussed and the firm is not left alone against shocks.
It involves a high amount of moral hazard.	The risk of moral hazard is low due to the assumption that people act morally.
Speculative movements are often realized.	Speculative activities are particularly avoided.

(Table derived by author.)

As a result of the evaluation of all the issues mentioned within the scope of our study; the Islamic financial system is historically a younger system compared to conventional economics. There are many crises and failures in the hundreds of years of conventional economics. For this reason, an alternative to conventional economics was sought.

The Islamic financial system is the biggest alternative economic system to the conventional economic system and the biggest basis for the Islamic financial system to be an alternative is that the Islamic financial system rejects interest as a whole. And also it is possible to say that in the Islamic financial system, money does not have any value just because of being money, which does not allow the continuation of the illusionist environment we live in.

Islamic financial system also leads to more successful investments due to its risk-sharing structure, that if the Islamic financial system is maintained in accordance with all the principles, it will ultimately lead to increased social welfare and sustainable growth results, while the ultimate result of the conventional economic system will be to cause uncertainty about the future.

2.3.2 Differences between Tools

Both conventional and Islamic finance use essentially similar monetary policy instruments to achieve monetary policy objectives. The difference in this regard is only due to the Islamic financial system's efforts to identify alternatives in accordance with Islamic principles on issues that conventional economics opposes.

Before identifying the differences between the instruments used by both systems, it would be useful to explain the basic instruments used by both systems.

Table 5 Tools that can be used by the Islamic Financial System and the Conventional Economic System

Conventional Economic System	Islamic Financial System
Interest Rate	Dues on Idle Cash
Reserve Requirement	Reserve Requirement
Open Market Operations	Project Based Sukuk
Credit Ceilings	Credit Ceilings
Bank Rate	Profit/Loss Sharing System (PLS)
Selective Credit Control	Selective Credit Control
Lender of Last Resort	Special Reserve Operated By PLS
Moral Suasion	Moral Suasion

(Table derived by author.)

The table shows that the Islamic financial system and the conventional system use almost the same instruments to achieve their monetary policy objectives and that Islamic financial instruments differ from the monetary policy instruments of the conventional system only in terms of the interest rate instruments, which is why the Islamic financial system cannot use open market operations, bank rate, lender of last resort instruments and alternatives to these instruments have been developed by the Islamic financial system.

All monetary policy instruments used by conventional economics, which include interest, are excluded from the system as monetary policy instruments in accordance with Islamic financial principles, and that Islamic finance puts forward alternative economic indicators instead of interest and tries to create an interest-free system and create appropriate monetary policy instruments (Korkut, 2020).

In the following part of our study, the place of traditionally used tools in the Islamic financial system will be briefly mentioned.

2.3.2.1 Open Market Operations

The most commonly used monetary policy instrument by conventional central banks is open market operations. However, open market operations both require a deepened market and involve interest in almost all transactions. Since Central Banks operating in accordance with Islamic financial principles have not yet fully deepened in the financial system, it is not possible for them to be used according to the principles of Islamic finance. However, since the monetary policy decisions taken by the Central Bank have the fastest and most direct impact on financial markets through open market operations, Central Banks operating according to Islamic financial principles use many open market operations of Central Banks operating according to conventional economics by transforming them and making them compatible with Islamic principles.

2.3.2.2 Required Reserves

Reserve requirement ratios are instruments that are highly compatible with Islamic financial principles as long as they do not involve interest. For this reason, as long as they do not contain interest, they can be used as a monetary policy tool by Central Banks operating in accordance with Islamic financial principles. However, some interest may be paid by the Central Bank to the amounts arising from the reserve requirement ratios set aside by participation banks as required reserves and kept at the Central Bank.

Since the transaction involves interest, in this case, reserve requirements would be contrary to Islamic financial principles. If participation banks do not accept the interest to be paid directly by the Central Bank, this will cause participation banks to fall behind compared to their competitors in the highly competitive financial market. The strengthening of the Islamic financial system and the increase in its awareness depend on the strengthening of the Islamic financial system.

The fact that participation banks cannot compete fairly with conventional financial institutions due to the reserve requirement ratio will only harm the principles of Islamic finance. For this reason, interest-bearing reserve requirement transactions should be transformed into a form that is in line with Islamic financial principles. There are two different methods in practice for reserve requirement ratios, which are also called reserve ratios:

a) 100% Reserve Ratio

b) Fractional Reserve Ratio

At the fractional reserve ratio, a certain percentage of the 100 liras deposited in a bank remains in the bank, while the amount corresponding to the determined ratio is transferred to the Central Bank. For example, if the reserve ratio is set at 50%, 50 liras of the 100 liras deposited in the bank must be kept as reserve requirements at the Central Bank. The bank lends the remaining 50 liras to someone else as a loan. If the borrower deposits the full amount of the loan back into his deposit account, the bank retains 25 liras while keeping 25 liras as reserve requirements at the Central Bank. Therefore, if 100 liras are deposited in the banking system, 150 liras will be exchanged in the market at the end of the second transaction, even in cases where a very high reserve ratio of 50% is applied. In other words, the bank returns 100 liras to the market as 150 liras. In this case, 50 liras is bank money created by the bank.

In the Islamic financial system, money that has no equivalent and does not originate from a real commercial transaction is not accepted as valid and is not tolerated by religion. For this reason, full reserve is recommended instead of fractional reserve, which is contrary to the Islamic financial system. If the full reserve ratio is applied, 100 liras deposited in the bank will be sent directly to the Central Bank as reserve requirements. Therefore, there will be no circulation of any amount in the market that does not originate from a real commercial transaction, and the banks will be prevented from creating money.

2.3.2.3 Profit/Loss Sharing Ratio

Profit/loss sharing ratio is a monetary policy tool that is fully in line with Islamic financial principles, that the amounts deposited by customers in the participation bank are evaluated by the participation bank in investments, and that the depositor is paid the amount of profit or loss left over from the investment made, taking into account the profit/loss sharing ratio determined between the customer and the bank, The Central Bank can change the monetary policy by changing the profit and loss sharing ratios for the areas it wants to develop in the economy, and if the profit/loss sharing ratio is determined by the Central Bank and regulated by the Central Bank in accordance with the monetary policy objectives, it will ensure both the inclusion of savings in the system and the determination of the direction of the economy (Guvenilir and Incekara, 2019).

2.3.2.4 Selective Control Tools

Selective control instruments are instruments that show their results in the long run in the Central Bank's practice. The Central Bank monitors the economic trajectory and differentiates the sectors of the economy that need to grow or that are overgrowing and need to be stopped by using variables such as loan amount, maturity and interest rate, and changes the economic trajectory of the sector. By using this method, the Central Bank determines the direction of the economy, determines in which direction the economy should grow or in which direction the economy should stop growing, and ensures that the money is transferred to areas that will benefit the economy.

Selective control instruments are directly in line with Islamic financial principles. By using the instruments of selective control, the Central Bank can influence monetary policy by using procedures such as buying the shares of the sectors that the Central Bank wants to develop, ensuring the flow of funds to the sectors that it wants to develop, and determining the profit/loss sharing ratios for the sectors that it wants to develop in accordance with the purpose. (Guvenilir, 2019).

2.3.2.5 Interbank Money Market Transactions

Today, the success of the instruments used by the Central Bank to achieve monetary policy objectives depends on the banks use of these instruments. In the current conjuncture, it is impossible for the Central Bank to achieve the objectives determined by the transactions to be carried out directly by itself. In order to achieve the monetary policy objectives, the banks in the financial system should cooperate with the Central Bank or the transactions to be carried out by the Central Bank should be carried out among the banks themselves and the burden of the Central Bank should be eased.

The transactions to be carried out by the banks among themselves will be carried out in the interbank money market and the success of the transactions to be carried out in this market depends on the extent to which the financial sector is deepened and how the interbank money market is organized.

In financially developed and deepened countries, the interbank money market is probably well developed and banks are able to conduct liquidity management transactions among themselves without the need for the actual participation of central banks. In countries where conventional economics is practiced, the interbank money market cannot be used by participation banks because it involves interest-bearing transactions. For this reason, participation banks either continue their activities with a large amount of idle liquidity or carry out liquidity management by cooperating with international markets in accordance with Islamic financial principles. This leads to the Central Bank's inability to implement the policies it wishes through participation banks in order to achieve the monetary policy objectives it has set.

The instruments to be proposed in this study and to be used by the Central Bank as monetary policy instruments are generally based on open market operations to be conducted by the Central Bank. Open market operations are the fastest way for the Central Bank to intervene in the market.

However, due to the interest sensitivity of participation banks, it is not possible for participation banks to participate in open market operations carried out by the Central Bank using interest. This leads to the inability to fully realize the monetary policy objectives set by the Central Banks. For this reason, academic studies have recently and frequently been conducted in a way to lead to the use of open market operations as a monetary policy tool.

In order for the Islamic financial system to succeed, Rais stated that the monetary policy instruments of the Central Bank to be determined in accordance with Islamic principles should have the following qualities.

- The monetary policy should be of such a nature that banks in the interbank market should be able to trade among themselves.
- An interbank cooperative-like structure should be established to enable banks to use each other.
- A common pool should be developed at the Central Bank and the supply of funds should be realized mutually from this pool (Rais, 2002).

2.4 Monetary Policy Instruments that can be Used by both Economic Systems

If the basic principles of a subject are in conformity with Islamic rulings, it is not religiously appropriate to reject the subject as a whole because of the complementary provisions of the subject are contrary to Islam. The best example that we can give to this issue related to monetary issues is the fact that the Prophet (PBUH) continued to use the Byzantine dinar, which was used by the existing political power when he started to spread Islam, instead of rejecting it altogether, as mentioned in the previous parts of our study.

Therefore, it is possible to say that Islam accepts to incorporate the necessary institutions and concepts into its structure in every subject that is in accordance with its principles. This is due to the dynamic structure of Islam. Islam is a religion whose borders were drawn by the Quran and Prophet (PBUH), whose basic principles are very clearly stated, and which is constantly updated and keeps itself alive, provided that it does not contradict these basic principles. For this reason, it is possible to state that within the scope of Islamic finance, any monetary policy instrument that complies with Islamic principles can be used.

Kazancı has made a comparison of conventional economics and the Islamic financial system in terms of aims and tools, and as a result of the comparison, he has reached the results stated in the table below.

Table 6 Objectives of the Islamic Financial System and Conventional Economic System

Conventional Economic System	Islamic Financial System
Price Stability	Price Stabilization through Increased Production
Financial Stability	Financial stability with incentives for the real sector

(Table derived by author.)

Table 7 Islamic Financial System and Conventional Economic System Tools

Conventional Economic System	Islamic Financial System
Policy Interest Rate	Policy Yield Rate
Liquidity Management	Interest-Free Liquidity Management
Interest Rate Corridor	Yield Corridor
Required Reserves	Interest-Free Reserve Requirements

(Table derived by author.)

The table above, which is based on Kazanci's study, shows that conventional economics and the Islamic financial system have similar objectives, while the instruments vary in terms of whether they include interest or not. Therefore, the above table reveals that the two systems can use instruments belonging to each other as long as they do not contradict the basic principles.

All tools used by conventional economics to achieve monetary policy objectives in an economy in accordance with Islamic financial principles, except for tools such as the discount rate, which includes interest, can also be used by the Islamic financial system, and in this context, the Islamic monetary authority can also use tools such as credit ceiling controls, reorganizing the portfolios of financial intermediaries, ensuring the transfer of private deposits to the Central Bank, guiding investors by moral reinforcement by the Central Bank, advertisements, informal advice and guidance.

One of the most detailed studies on the instruments that can be used by both systems has been conducted by Chapra. In his study, Chapra analyzed which of the instruments used by Central Banks under conventional economics can be used by the Central Banks of countries using the Islamic financial system and announced that it has concluded that conventional economic instruments such as credit ceilings, government deposits, moral suasion and asset-based instruments can also be used by Central Banks using the Islamic financial system (Chapra, 1996).

Mulkiaman; in his study, he specified the instruments used by conventional economics as monetary policy instruments and stated how these instruments are suitable for use by the Islamic financial system. (Mulkiaman, 2016).

Table 8 Suitability of Monetary Policy Instruments of Conventional Economics to Islamic Finance

Method Of Credit Control	Suitability to Islamic Finance
Legal Reserve Ratio	Suitable
Bank Rate Policy	Unsuitable
Open Market Operations	Modification Necessary
Credit Seilings	Suitable
Selective Credit Control	Suitable
Lender of Last Resort	Modification Necessary
Issue of Directives	Suitable
Moral Suasion	Suitable

Source: Mulkiaman, 2016 & Author

As shown in the table among the monetary policy instruments of the conventional financial system, only the interest-based bank rate policy cannot be used, while other instruments are suitable for the Islamic financial system either directly or through transformation.

As a result of the evaluation of the issues evaluated within the scope of our study as a whole; it is thought that the Islamic financial system does not directly reject the products developed by the conventional economic system, and any product that complies with Islamic principles can be used by the Islamic financial system as a monetary policy tool to achieve its goals.

2.5 Requirements for the Success of the Islamic Financial System

So far, the definition of Islamic finance and its history, principles on which it is based on, the objectives it seeks to achieve through the use of monetary policy, the differences between it and conventional economics and the tools used in common by both systems have been included in this part of our study and in the following part of our study, there will be a section with information on the foundations that need to be provided or the steps that need to be taken for the Islamic financial system to be successful.

The sustainability of the steps to be taken by the Central Bank towards Islamic finance depends first of all on the success of the outcome of the steps taken. If the policies implemented are not successful, over time, the demand for Islamic finance by the actors in the market will decrease, the motivation of the market regulators will disappear, and the number of those who strive for the success of the system will decrease. For this reason alone, many studies have been conducted on the conditions that must be met for the Islamic financial system to be successful. In the following part of our study, both the issues that need to be ensured for the Islamic financial system to be successful and other institutions and concepts that need to be established to ensure this success will be discussed.

2.5.1 The Need for an Independent Monetary Policy

In the previous sections of our study, it was stated that although conventional economics and the Islamic financial systems have many similarities, since the Islamic financial system is very seriously opposed to the most basic foundations of the conventional economic system, the Islamic financial system should follow an independent monetary policy by the Central Bank in accordance with its own principles by taking the appropriate parts of the conventional economic system.

The Central Bank, in cooperation with the government, uses monetary policy to achieve the objectives set for the national economy, and the success of the instruments used depends on ensuring that the policy has an impact on the economy of the whole country. It is clear that the results of monetary policy will be partially inclusive if the instrument determined by the Central Bank is not used by the entire economy of the country.

Today, except for a few countries, most of the countries that have adopted the Islamic financial system have a dual financial system. The Central Bank, which is at the heart of this financial system, mostly uses interest rates in its transactions and products.

In this case, Islamic banks in the dual financial system cannot fully utilize all the products issued by the Central Bank (payment of interest on required reserves, fulfillment of the Central Bank's function as the lender of last resort in return for interest). This means that the monetary policy instruments issued by the Central Bank cannot be used by banks operating in accordance with Islamic financial principles, and therefore the Central Bank's monetary policy can not produce the expected results.

The outright purchase and outright sale transactions carried out by the Central Bank of the Republic of Turkey in order to regulate the liquidity in the market can be given as an example to show that even a well-intentioned step taken in this regard did not achieve the expected result. There is no obstacle to the participation of participation banks in the outright purchase and outright sale transactions carried out by the CBRT.

However, since these transactions involve interest, participation banks' participation in outright purchase and outright sale transactions does not comply with Islamic principles. In order to enable participation banks to participate in outright purchase and outright sale transactions, the CBRT issued a lease certificate product as an alternative to interest-based instruments.

However, since the CBRT sells this product to participation banks only at certain hours of certain days of the week and within certain limits, it is not possible to say that participation banks benefit fully and as desired from this product (Kutval, 2019).

Assuming that the share of participation banks in the financial sector in Turkey is approximately 10%, it is believed that the CBRT's outright purchase and outright sale transactions will not have any effect on this 10% of the market. In this case, a special structure should be established by the CBRT for institutions operating according to Islamic financial principles and this structure should allow participation banks to benefit from all kinds of monetary policy operations.

Table 9 Evaluation of Open Market Operations Conducted by the CBRT in terms of Islamic Finance

Product	Evaluation
Direct Purchase-Sale	Restricted use as a lease certificate.
Repo-Reverse Repo	Restricted use as a lease certificate.
Issuance of Liquidity Notes	Cannot be used because the bond is interest-bearing.
Trading	It cannot be used as there is a certain amount of interest in the auctions

(Table derived by author.)

The most frequently used monetary policy instrument by the Central Bank is open market operations. In addition, open market operations are the transactions that the Central Banks carry out for monetary policy purposes, where they can get the fastest results and direct the market. When the table above is interpreted, it is seen that only (1) of the open market operations carried out by the CBRT and that is the purchase and sale of participation banks in certain periods and in certain amounts. That it is not possible to carry out other open market operations with participation banks. This situation directly leads to the fact that participation banks cannot deepen in the financial system as much as conventional banks.

As a matter of fact, in the study organized by the IMF mentioned this situation as a summary as below; In economies with a dual economic system, the conventional sector is much deeper and more developed than the Islamic sector because both the market and the system are designed according to an interest-bearing structure.

Since the Islamic financial system cannot operate in areas that are contrary to Islamic principles, the Islamic financial system will not be able to reach customers in these areas. It is possible to state that this situation will further increase the deepening in the financial system in favor of the conventional sector, and that monetary policies implemented through the conventional sector are likely to be more successful due to the relativity effect as the conventional system reaches more customers.

Participation banks are few in number in the market. The large number of conventional banks in the market also increases their leverage. This situation disrupts the development of the interbank market and the healthy functioning of monetary transmission mechanisms.

It is also stated that Islamic banks have not been able to fully integrate into the interbank market due to the fact that the interbank money market between the participation banks themselves has not yet developed, and that Islamic banks cannot achieve the expected success in liquidity management due to the fact that Islamic banks cannot carry out all kinds of transactions in the interbank market, for this reason, participation banks work with idle liquidity, which is not in line with Islamic principles as it limits the area where idle liquidity can be distributed. (IMF, 2016).

The market share of participation banks will gradually increase and if the steps to be taken by the Central Bank to achieve monetary policy objectives do not include participation banks, the transactions to be carried out will not be inclusive. Due to the fact that participation banks cannot fully perform all transactions in the interbank market and that participation banks cannot participate in the purchase and sale transactions that the Central Bank will carry out in the market as open market transactions, participation banks will have excess liquidity in their balance sheets at the end of the day and that this excess liquidity cannot be introduced into the economic system through the credit channel. (Kazanci, 2019).

As a result of the evaluation of the issues mentioned within the scope of our study as a whole; in countries with a dual financial system, conventional financial institutions have the advantage of earlier institutionalization compared to Islamic financial institutions. The financial system works to the detriment of Islamic financial institutions under the dominance of conventional financial institutions.

Most of the monetary policy instruments used by central banks to achieve monetary policy objectives do not appeal to Islamic financial institutions. Therefore Islamic financial institutions cannot carry out firm purchase and sale transactions with the Central Bank. Therefore, it is thought that Islamic financial institutions are not successful in liquidity management. This leads to a low market share of Islamic financial institutions and the Central Bank is unable to fully use monetary policy instruments. Therefore it is not possible to achieve monetary policy objectives by using monetary policy instruments. A separate monetary policy process for financial institutions operating in accordance with the principles of Islamic finance would be more helpful for the Central Bank to achieve the expected monetary policy objectives.

2.5.2 Correct Determination of Money Demand and Realisation of Appropriate Money Supply

In order for the monetary policy to be conducted by the Central Bank to be successful, the Central Bank should both correctly predict the demand for money in the market and supply money at a level that is appropriate to this demand and meets the amount of demand, and use monetary policy instruments in a way to both achieve and maintain this balance. If the Central

Bank fails to accurately predict the demand for money in the market and the policy it will implement leads to a surplus or deficit of money supply in the market, it will not be possible for the Central Bank to achieve the objective it aims to achieve by using monetary policy instruments.
Money demand is both an independent and exogenous variable in the equation that the Central Bank will use in determining monetary policy. The reason why money demand is exogenous is that the Central Bank cannot determine the amount of money demand in the market. The money demand in the market depends on the decisions of market actors.

In making these decisions, market actors take into account the current state of the market and the future prospects of the market. The independence of the money supply in the monetary policy equation stems from the fact that it is determined by market actors without being subject to any influence. However, the money supply is determined by the Central Bank in line with the market demand for money. The money supply is expected to be in line with the money demand in the market.

Therefore, money supply is both an endogenous and a dependent variable in the equation that determines monetary policy. The endogenous position of the money supply in the equation stems from the fact that it is determined by the Central Bank. The fact that it is a dependent variable stems from the fact that its value will change depending on the demand for money.

Therefore, it is obvious that one of the most important instruments of the monetary policy to be determined by the Central Bank is the money supply supplied to the market in line with the money demand to be measured by the Central Bank, and if the money demand is measured incorrectly by the Central Bank, the money supply will also be affected by this error and the monetary policy will not achieve the expected goal.

If we want to ensure the success of the Islamic financial system, it is thought that it would be useful to study the reasons for the demand for money in the Islamic financial system. (Acemoğlu;2016)

In conventional economics, money is demanded for three reasons: transaction, precaution and speculation. In Islamic finance, money is demanded for only two reasons: transaction and precaution. Money is not demanded for speculation in Islamic finance because of interest and excessive uncertainty. The following points are made regarding the demand for money in Islamic finance:

In the Islamic financial system, speculative demand for money is not possible since there is no interest rate, money demand can only be realized for transaction or precautionary purposes, money demand follows a more fixed and stable path compared to conventional economics, and therefore, the Central Bank should conduct a monetary policy in a way that preserves the amount of money available in the market and does not need to use any interest-based instruments. (Fauzi and Indri, 2019)

Speculative demand for money is triggered by fluctuations in interest rates, and since there is no interest in the Islamic financial system, there will be no speculative demand for money, and the demand for money will only arise from the motive of transaction and precautionary", and also Chapra states that; "in the process of formulating monetary policy, the money supply rather than the interest rate should be taken as the variable, and if any Central Bank that will operate in accordance with Islamic financial principles wants to be successful, it should index the indicators of monetary policy to the variables in the money supply. (Chapra et al., 2019; Chapra, 1983).

In the Islamic financial system, the demand for money cannot be realized for speculation or precautionary purposes, and that in the Islamic financial system, money can only be demanded with the motive of transaction, after referring to verse 34 of Surah At Tawbah: "*Those who hoard gold and silver, and do not spend them in God's cause, inform them of a painful punishment.*" They argued that the Islamic financial system explains why it does not approve of demanding money out of the motive of precaution, that spending money in the way of Allah rather than keeping it would be in accordance with Islamic financial principles, that the love of money can be a reason for the demand for money, but that there cannot be a concept such as money illusion in the context of Islamic finance, and that money in Islamic finance would not have any function other than being a means of buying and selling (Khan and Jabeen, 2020).

In the Islamic financial system, both money supply and money demand are exogenous variables in the monetary policy equation, there can be no money market in the Islamic financial system, in which case the money supply would be determined by the monetary authority in consultation with the board of economists as well as fiqh scholars, the demand for money is ultimately determined by households, despite the large number of exogenous factors, households should choose between holding money for immediate needs and holding money as a long-term investment instrument, and it is necessary for the monetary authority to set an equilibrium price associated with the sum of growth and inflation as the final quantity of money supply. (Khan and Jabeen, 2020).

Oweida, on the other hand, has stated the most important duties of the institutions holding the monetary management (Central Bank is meant) as follows.

- Care should be taken in money printing.
- Money printing should be strictly controlled.
- The amount of money supply should be determined on objective grounds.
- Monetary expansion should be based on rules only.
- The fractional reserve system, which allows commercial banks to produce dematerialized money, should be parted ways with.[10]

As a result of the evaluation of all the issues mentioned in this section of our study; In the Islamic financial system, the demand for money is an exogenous variable, while the money supply is an endogenous value determined by the Central Bank by considering the demand for money; for the system to be successful.

[10] Retrieved from Oweida, M and Samar, A. (2020) İslami Finans ve Finansal Teknolojiler (Fintech) Blokzincir-Akıllı Sözleşmeler-Kripto Paralar. Necmettin Erbakan Üniversitesi Yayınları.

The money supply must be determined in line with the demand for money; if the money supply is determined in a way that exceeds the demand for money, a problem such as inflation will arise; and if the money supply is produced too little to meet the demand for money, many problems that will indirectly affect the economy negatively will occur.

Therefore, it is considered that determining the amount of money supply by considering the demand for money very well is essential for the success of Islamic finance, and the most appropriate method in terms of Islamic finance is to follow a money supply policy indexed to the growth rate, based on the fact that an increase in the money supply that corresponds to the growth rate of the country's gross national product will not cause inflationary effects.

2.5.3 Qualifications of the Central Bank to Conduct Monetary Policy

In the previous sections of our study, it has been stated that the Central Bank has sole authority over the objectives for which monetary policy will be conducted and which instruments will be used to achieve these objectives. Nevertheless, it is not possible to say that monetary policy objectives will be achieved if the Central Bank directly takes decisions and implements these decisions.

Central Banking is a specialized job. Central Banking makes it possible to achieve certain objectives if certain actions are taken in the presence of certain qualifications. If the Central Bank is left alone by the government in the market, if the Central Bank is not assisted by other financial institutions, if the Central Bank staff does not have the necessary merit or if the Central Bank is not transparent, it will not have credibility in the eyes of the public and it will not be possible to achieve the objectives with the policy implemented. For this reason, the qualities that the Central Bank should possess in order to be successful are given below. (Acemoğlu;2016)

2.5.3.1 Quality of Personnel to Implement Central Bank Policies

Monetary policy is the most important means of achieving the economic objectives of a country. Therefore, if a country wants to realize its economic objectives, the monetary policy it determines should not only make it possible to achieve these objectives, but also the monetary policy should be determined and implemented effectively.

Moreover, it is also necessary to intervene urgently in situations that may arise during the implementation of monetary policy, and to change the objectives or instruments of monetary policy quickly if it is concluded that it is not possible to achieve the objectives of monetary policy if the current practice continues in any way. Therefore, determining and implementing the monetary policy of the country should be carried out by a staff that will be careful and successful in the above-mentioned issues. (Acemoğlu;2016)

In countries where the Islamic financial system is practiced, there are very few expert who know both conventional banking and Islamic financial principles, as well as those who can implement monetary policy in accordance with the principles of Islamic finance and at the same time take the parts of conventional economics that are in accordance with the principles of Islamic finance and put them into practice. The small number of people who make up this experts also affects the success of the Islamic financial system.

Indeed, verse 58 of Surah al-Nisa states: "*Indeed, Allah commands you to return trusts to their rightful owners.*" This Qur'anic provision makes it very clear that all appointments should be based on merit.

Any decision taken by the Central Bank directly or indirectly affects all macroeconomic indicators of the country. This effect may sometimes be short-term and temporary, while at other times it may be long-term and permanent. Moreover, in order for the policies to be implemented by the Central Bank to affect the market through the expectations channel, they need to be announced to the public some time in advance. Public announcements, policies, etc. by the Central Bank are questioned by the public. Due to all the issues mentioned above, both the people who determine the monetary policy and the people who implement the monetary policy to be determined by the Central Bank should be meritorious.

In addition, the people who will appear for the public on behalf of the Central Bank must first have the ability to represent the Central Bank and then be equipped to handle the public's questioning of the Central Bank. No matter how well a system is designed, people ultimately manage it.

Therefore, the likelihood of a perfectly designed Central Bank project failing in practice is directly proportional to the skills of those implementing it. A policy that fails in the hands of unqualified people fails not because the policy is faulty but because it is implemented by faulty people. For this reason, the monetary policy to be adopted and implemented in accordance with Islamic financial principles should be implemented by competent people for the success of both the monetary policy and the Islamic financial system. (Acemoğlu;2016)

2.5.3.2 Transparency

One of the criteria that determines the success of Central Banks in any country is the degree of transparency of the Central Bank in question. If a Central Bank adopts transparency and makes all its decisions publicly in a transparent manner and regularly informs the public about the results of its decisions, we can talk about the transparency of the Central Bank.

If a country's Central Bank wants to achieve its monetary policy objectives, it is necessary to first select the people who will determine and implement the monetary policy among the competent and reliable people in the society, and then to announce the policies to be implemented and implemented transparently to the public, and to renew the credibility of the people implementing the policy in the eyes of the public frequently in this way (Erdogan and Gedikli, 2020).

One of the ways in which the Central Bank achieves its monetary policy objectives is through the use of appropriate instruments is the Central Bank's use of the expectations channel. In order for the information disseminated to the public by the Central Bank to produce the expected results, there must be a Central Bank that acts in accordance with the specified situation.

If the Central Bank acts in accordance with the specified process, the expectations channel starts to work in the eyes of the public and the Central Bank shapes the market by announcing or anticipating the decisions it will take in the following process. If the Central Bank fails to ensure transparency, the information provided to the public directly or indirectly by the Central Bank will not have any impact on the public opinion.

Therefore, the more accurately the Central Bank informs the public and the more information it is ready to share with the public, public's trust will be higher to the Central Bank and its monetary policy. For this reason, it is believed that there is a direct relationship between the success of the Central Bank towards the targets set by the Central Bank and the degree of transparency of the Central Bank.

2.5.3.3 Central Bank and Real Sector Cooperation

In setting monetary policy, the Central Bank considers the economic prospects of the country. Once the policy is set, the Central Bank conducts monetary policy either directly or through financial institutions. The monetary policy ends up having consequences either on the real sector or on households. Therefore, the success of the monetary policy pursued by the Central Bank depends on the extent to which the real sector or households contribute to the policy adopted by the Central Bank. If the real sector and households do not trust the Central Bank in any way, the steps taken by the Central Bank will be hindered at some point. In addition,

Main objective of the monetary policy implemented by the Central Bank is to ensure price stability, that the most important indicator of whether price stability is achieved is the inflation rate. Monetary policy may be disrupted if the inflation rate is high so the Central Bank and the real sector should cooperate closely in order for the inflation rate to follow a stable course. As a result of this cooperation, inflation can be kept at a level that will not affect the monetary policy, thus demonstrating that the cooperation between the Central Bank and the real sector can affect inflation and thus the success of the monetary policy (Korkut, 2020).

2.5.3.4 Establishment of a Separate Structure Specific to Islamic Finance by the Central Bank

Today, even in many Islamic countries of the world, it needs very much effort to have a Central Bank that is 100% in line with Islamic financial principles, sometimes for political, sometimes for economic or religious reasons. For this reason, financial institutions that operate in accordance with Islamic financial principles are generally located in economies with Central Banks operating in accordance with conventional economic principles.

Since the system is organized on the basis of financial institutions operating in accordance with conventional economic principles, the system should be redesigned in consideration of financial institutions operating in accordance with Islamic financial principles in order for transactions to be successful according to Islamic financial principles.

Islamic finance generally operates in areas where there are two-layered structures, it would not be correct to expect a financial structure that fully complies with Islamic financial principles in all layers, it would not be in accordance with the ordinary course of life to design all rules in accordance with Islamic financial principles, it should be aware that institutions operating according to Islamic financial principles will be under the management of Central Banks operating according to conventional economic principles and realistic expectations should be entered. (Khan and Jabeen, 2020).

For the Central Bank to be successful in an environment where there are financial institutions operating in accordance with Islamic financial principles below conditions should be established; (Kazanci, 2019).

- Islamic collateralized money market instruments for liquidity management,
- High quality marketable collateral,
- Active interbank mudaraba market for banks operating in accordance with Islamic financial principles
- Efficient operational framework in line with Islamic financial principles,
- Payment and settlement systems in accordance with Islamic financial principles

Although the segment operating in accordance with conventional principles in the economic system has many liquidity management instruments such as repo, reverse repo, liquidity bonds and bonds, these instruments cannot be used by financial institutions operating in accordance with Islamic financial principles, and this situation leads to a disadvantage in the balance sheet of these financial institutions, These institutions need collateralized and organized markets intermediated by a state institution or the Central Bank, and given the important role of institutions operating in accordance with Islamic financial principles in achieving monetary policy objectives, it would be healthier for the Central Bank to establish these institutions (Kazanci, 2019).

The Islamic Financial Services Board (IFSB) has also prepared a roadmap for the expansion and deepening of Islamic finance, which outlines the actions that the monetary authority should take in order to increase the efficiency of liquidity management of banks operating in the field of Islamic finance and to develop a money market in accordance with Islamic finance rules:

- The instrument to be used should be less risky than other instruments. It should be designed in a simpler structure.
- The instrument should be widely demanded and have a sound payment system.
- Financial instruments in accordance with the principles of Islamic finance should be used by the CBRT for liquidity management.
- Effective trade regulations should be put in place for monetary policy in accordance with Islamic rules (Islamic Financial Services Board, 2008).

Both conventional economics and Islamic financial principles basically have the same goal to be achieved by using monetary policy, but in economies where Islamic finance is observed, it is necessary not only to check whether monetary policy is in accordance with Islamic morality, but also to realize the socioeconomic goals determined by Islam, for this reason, there are different goals to be achieved by using monetary policy in accordance with Islamic financial principles; broad-based and inclusive economic welfare, full employment, optimum economic growth, socioeconomic justice, equal distribution of income, directing savings to investment, and in order to achieve these objectives, the conventional system should be reorganized in accordance with Islamic financial principles (Guvenilir, 2017).

In the part of our study mentioned so far, it is understood that the market is shaped by the Central Banks using the principles of the conventional economic system, that participation banks operating in accordance with Islamic financial principles in this market face various difficulties, and that in order to prevent these difficulties, a separate structure should be established within the Central Bank for transactions to be carried out in accordance with the principles of the Islamic financial system.

2.5.4 Economic indicators that can be used as an alternative to interest for the success of the Islamic financial system

It has been stated in the previous sections of our study if the Central Bank follows a monetary policy in accordance with Islamic financial principles, it will not be able to use interest rates, the most important instrument of conventional economics. For this reason, in order for the monetary policy to be implemented by the Central Bank to be successful, economic indicators in accordance with Islamic financial principles should be determined and the use of these indicators should be encouraged.

The ability of the Islamic financial system to stand upright and provide a serious alternative to the conventional economic system depends on its ability to replace the interest rate it challenges with another strong economic indicator. Due to the increasing importance of the issue and the fact that interest, which forms the basis of conventional economics, has long been seen as a problem in all economies of the world, many academics have been conducting research on the subject and trying to determine an economic indicator that can replace interest. In this context, the examples of alternative economic indicators that have been identified and found useful to be applied will be given below.

2.5.4.1 Nominal GDP

The Economist published an academic study titled Closing The Valve in 2007. The study in question covers the period between 1970 and 2007. The study was prepared to include the world's largest economies. The countries in the study include the United States, Britain, Canada, China, Eurozone, India, Japan, etc. In the study, nominal GDP rates and official interest rates of the countries were compared. In the study, which was conducted for countries that account for 64% of the world's total GDP and whose details are shown in the table below, it was determined that nominal GDP and official interest rates follow a similar trend.

Hanif and Shaikh investigate whether this data is true only for large economies. They obtained data on nominal GDP figures and official interest rates for 125 countries from the

IMF's website covering the period 1981-2008, excluded the 20 countries with the highest volatility from the data and concluded that although not all countries use the same monetary policy; the Economist's study covering the period 1970-2007 and including only large economies shows that the result is similar for the rest of the countries. They stated that there is a positive correlation between nominal GDP ratios of countries and interest rates as shown in the table below and therefore Central Banks that want to avoid interest rates and operate according to Islamic financial principles can use nominal GDP ratios as economic indicators (Hanif and Shaikh, 2009).

Uddin and Halim agree with Hanif and Shaikh that Islamic finance should use the rate of nominal GDP growth as an economic indicator instead of interest rates. According to Uddin et al. the recent economic crises have shown that interest rates have failed to control the economy. This failure has led economists to search for an alternative economic indicator to the interest rate. They stated that past studies have also shown that the nominal GDP growth rate can be an alternative to the interest rate. Finally, Uddin et al. emphasized that the use of nominal GDP growth rate as an alternative to interest rate as an economic indicator would increase social welfare (Uddin and Halim, 2015).

If the Central Bank uses the interest rate, the effectiveness of monetary policy depends on the political independence of the Central Bank. Interest rates lose their effect in environments where the Central Bank is subjected to political pressure and cannot be used as an economic indicator. That interest rates are open to externalities, interest rates are extremely volatile in most countries. A monetary policy based on interest rates is unlikely to be successful, the money market will be healthier if the nominal GDP growth rate is adopted (Guvenilir, 2017).

Islam clearly rejects ınterest economıcally. But, since today's conventional economics is based on interest, the Islamic financial system needs to develop a serious alternative. For this reason, if Islamic finance replaces interest with a any rate, it can be an alternative to the conventional system.

If the Islamic financial system opposes interest without any alternative, it will be very difficult to change people's fixed decisions. One of the most important indicators developed for this reason is nominal GDP growth. The economic value of a country is determined by the nominal GDP generated in the country during the year. Moreover, nominal GDP growth shows the real growth of the country. Since studies have found that there is the same directional relationship between the interest rate and nominal GDP, it is thought that it will be useful to communicate with the units in this way frequently.

2.5.4.2 Gross Domestic Product

Gross domestic product should be used as the rate of return on securities issued by the Central Bank on a risk or profit and loss sharing basis, or as the rate of return for all transactions of the Central Bank operating in accordance with Islamic principles, and they based their suggestion on the following 2 reasons;

a) Islamic finance as a whole is based on real production. Gross domestic product gives the value of all products produced by an economy domestically in that year. For this reason, it is thought that economic indicators better reflect the country's economy if the gross domestic product is adopted as the economic indicator ratio.

b) Since average nominal gross domestic product rates and average interest rates across the country have been moving in a similar manner for a very long time, it is considered that it would be more useful to use nominal gross domestic product as an economic indicator in the transactions to be realized (Hanif and Shaikh, 2009).

When the principles mentioned in this part of our study are evaluated together, it is obvious that there are various conditions for a monetary policy adopted in accordance with Islamic finance to be successful, and no matter how successful a policy is determined, the policy will fail unless these conditions are fulfilled. These conditions are mostly centered on the structure of the Central Bank.

The Central Bank staff that will determine and implement the monetary policy should have merit. These staff should be composed of people who are known to be trustworthy in the eyes of the public. The Central Bank should be transparent both in terms of the implementation of the monetary policy and the results of the monetary policy.

It should be known that the policy must be supported in order to achieve success and that this support can be gained through transparency. The Central Bank should cooperate with the real sector in order to achieve the objectives of the monetary policy. It is accepted that the Central Bank can achieve its monetary policy objectives as a result of this cooperation. The economic indicators determined by the Islamic financial system, which prohibits interest in absolute terms, as an alternative to interest, must used effectively by the system for the success of Islamic finance.

2.6 Analyzing the Results of Projects in Compliance with Islamic Principles

Many scholars who have conducted research on Islamic finance so far have come to the conclusion that if a country operates in accordance with the principles of Islamic finance, it achieves a more successful result in terms of economic performance and economic indicators than banks operating in accordance with the principles of conventional economics.

- Compared major OECD and EUROZONE countries with interest-free financial institutions, that countries which operate in accordance with qard al hassen are more economically successful, and that monetary policy based on qard al hassen can overcome the obstacles to achieving full employment objectives more easily than the conventional economic market (Selim and Hassan, 2019).
- The monetary policy and monetary regime adopted by economies operating in accordance with the Islamic financial system are more successful in overcoming recession. (Shaikh, 2010).
- If istisna-based contracts are used to finance large projects, this increases profitability and can be used as a monetary policy tool (Zarqa, 1997).
- If large projects are carried out through the istisna method, it will lead to an acceleration of the government's activity not only in the completion phase of the projects but also due to the ease of access to financing (Wilson, 1998).
- Projects for the Islamic financial system have a very serious potential outside the Islamic world and it is possible to gather serious demand, which will make the Islamic financial system more popular in the future (Alexander, 2011).

- If public expenditures are financed with a method based on Islamic finance, projects will be realized with lower costs, which will increase the demand for Islamic financial products (Biancone and Radwan, 2018).
- Large projects financed by the Islamic Development Bank are both lower risk and less costly when compared to projects financed by the private sector, and that projects financed by the Islamic financial system will always be realized at a lower cost than projects financed by conventional economics because they do not involve interest costs (Khan, 2002).
- In the case of using government participation certificates or Central Bank participation certificates focused on risk or profit/loss sharing to achieve monetary policy objectives, the resources will be used for real production in the public sector. The state budget will be relieved of the burden of interest payments since interest payments will not be made from the state budget.

  Since the issued certificates can also be sold in the secondary market, savers will earn high profits due to the securities indexed to the profit rate of the real sector and since the government intermediates the transactions the Central Bank can directly intervene in the market for monetary policy.

  Similarly, that a large number of idle savings can be directed to the market due to the high rate of return; system has an improving effect on income distribution since the system is accessible to all members of the society and promises high returns. Government provides a guarantee to the public on the return of the papers since it acts as an intermediary, which makes the government more accountable to the public. Government has the power to engage in higher cost investments with the income it obtains from these investments (Guvenilir, 2017).
- A projection of the possible situation that may arise if the Islamic financial system is not implemented and summarized in her study: in the event of fluctuations in the price level in any economy, investment and consumption decisions cannot be taken in a healthy way, savings cannot be transformed into productive investments in such an

environment, unemployment rates will increase and economic growth rate will decrease due to idle savings, idle savings will be collected in the financial system; therefore, investments will be financed by loans provided by the financial sector rather than equity; the financial sector will aim for high returns in a risky environment where investments are likely to fail; the high return expectation of the financial sector will naturally lead to high interest rates; the increase in interest rates will increase the cost of investments; inflation will be experienced in the market due to increased costs, and this inflation will prevent the realisation of productive costs.

In an inflationary environment, stockpiling of goods will increase, people will fall into an unnecessary spending environment, investors may carry out sudden and speculative transactions in order to protect themselves from inflation, speculative environment will create instability in the financial sector, investors will turn to money substitution due to the decrease in the purchasing power of money, money substitution will disrupt the justice in income distribution and the goal of economic development will not be realized (Guvenilir, 2017).

- Conventional banks have reached their maximum in terms of customer potential, that there is a large segment of customers who are not included in the financial system for various reasons. Inclusion of these people in the financial system will be possible thanks to the Islamic financial system. Financial deepening will be achieved if the Islamic financial system is implemented and that it can ensure the integration of people who have not entered the financial system due to various sensitivities into the system (Akkus, 2019; Chapra et al., 2019).

In countries where Islamic finance is adopted and practiced, the system is expected to be more successful than conventional economics if the minimum conditions that the Islamic financial system should have are met.

The Islamic financial system advises both people and governments to avoid uncertainty, to stay away from speculative attacks, not to engage in transactions such as gambling, to direct savings to investments instead of keeping them idle, and to finance investments in a risk-based manner based on profit and loss sharing.

If these principles are fulfilled, it is obvious that investments will increase due to the fact that savings will not remain idle, investments will be realized in a better measured way due to the fact that investments are made on the basis of risk sharing, the success of investments will positively affect the country's economy, similarly, the increase in investments will naturally increase the number of people employed, the investments will be realized at a lower cost compared to the projects financed by conventional economics due to the absence of interest costs, which will be reflected as lower prices to the final consumer.

In this case, if there is a failure in the implementation of the Islamic financial system by a country, this failure will not be due to the Islamic financial system itself, but rather to something in the specific situation of the country implementing the system.

For example, if the country implementing the Islamic financial system follows a monetary policy in accordance with this system, but follows a fiscal policy that is contrary to this policy and Islamic principles (misuse of public resources, appointing unqualified people to important positions, etc.), it is a natural consequence that the system will fail. For this reason, it is thought that the Islamic financial system will be more successful if it is carried out in accordance with Islamic principles and if other political and economic steps are taken in line with this policy.

CHAPTER III

MONETARY POLICY INSTRUMENTS IN SELECTED OIC COUNTRIES

In order to reveal how the principles of monetary policy mentioned in the previous part of our study are put into practice, some theoretical monetary policy tools as well as the monetary policies implemented in Malaysia and Pakistan have been evaluated together and thought that if they are used as a monetary policy tool, they will benefit economic growth in Islamic countries.

This thesis uses 2 different OIC countries (Malaysia, Pakistan) to determine which monetary policy tools they use and which tools are offering for reaching the macroeconomic goals by Islamic countries. Different criteria are used for determining countries. Malaysia and Pakistan; has been chosen for reasons such as using a dual economic structure, being a Islamic country, being a developing country, having a significant economic size, and having a long experience in Islamic finance.

3.1 The Islamic Finance Experiences of the Countries Selected as Examples and the Products They Use

In an increasingly globalized world, many countries have taken many economic steps in order to maintain their political independence by gaining their economic independence, as it has become clear how important economic management is for the independence of nations and that a country's political independence depends on its economic independence. Even though each country takes steps based on its own unique dynamics, it is possible for other countries to benefit from the experiences of Islamic countries in Islamic finance, since the principles of the Qur'an and Sunnah determine the basis of the steps taken by Islamic countries in Islamic finance. For this reason, in this part of our study, the products used by some countries for Islamic finance will be specified and it will be stated whether a step can be taken towards monetary policy by using these products.

3.1.1 Case of Malaysia

Malaysia is one of the countries where Islamic finance is most widely practiced, both in terms of size and product diversity.

In Malaysia, a large number of original instruments are used in accordance with Islamic finance, some of these products such as Bai Al Dayn (Sale of Debt) and Bai-Inaah (Buy Back) are considered doubtful by scholars, the first money market in terms of Islamic products was established in Malaysia in 1994 under the name of Islamic Inter Bank Money Market (IIMM), through the IIMM, banks and bank participants are able to solve their financing needs quickly and effectively, and through the IIMM, many tools have been developed, including the funding facility, to take advantage of the last lender of last resort facility to cover the open positions of Islamic Banks (Sarker, 2015).

IIMM as a structure consisting of 3 parts; Islamic deposits, Islamic money market instruments and Islamic check clearing system (Bacha, 2008).

IIMM includes not only Islamic banks, but also conventional banks, insurance companies and non-bank institutions, and that while it is possible for conventional banks to enter the Islamic money market, it is not possible for Islamic banks to enter the conventional money market. The most important mechanism of the IIMM is that it allows mudaraba transactions between banks, whereby banks can borrow and lend among themselves, and banks with surplus funds can invest in banks in need of funds through profit and loss sharing. Most religiously appropriate product is the acceptance of qard and that IIMM manages the liquidity that the bank with surplus funds provides to IIMM through qard. Another product that is frequently used is commodity murabahah and contracts based on crude palm oil. IIMM issued Bank Negara Monetary Notes through BNM (Bank Negara Malaysia) for long-term liquidity management based on istithmar, bai bithaman ajil, murabahah and ijara contracts. He noted that BNM also engages in foreign exchange trading to reduce excess foreign exchange reserves and that the Fiqh Advisory Board in Malaysia has approved foreign exchange swaps as fiqh compliant (Kazancı, 2019).

The instruments used in Malaysia to conduct monetary policy in accordance with Islamic finance as follows; "*Mudarabah Interbank Investment (MII), Wadiah Acceptance, Government Investment Issue (GII), Bank Negara Monetary Notes-i (BNMN-i), Sell and Buy Back Agreement (SBBA), Cagamas Mudarabah Bonds (SMC), When Issue (WI), Islamic Accepted Bills (IAB), Islamic Negotiable Instruments (INI), Islamic Private Debt Securities, Ar Rahnu Agreement-I (RA-i), Sukuk BNM Ijarah (SBNMI), Green Banker's Acceptances, Repurchase Agreements*" and Mulkiaman added that; "*There are a large number of products used by BNM and IIMM that are considered to be religiously suspect, that these products are only applicable in Malaysia. These products contain a large number of religious deception schemes and that they are contrary to the prohibition of gharar, which is one of the basic principles of Islamic finance so the use of these products is incompatible with the principles of Islamic finance."* (Mulkiaman, 2016).

Various products used by BNM and IIMM and examined whether these products are applicable to our country. According to Orhan:

a) Sukuk-based Government Investment Certificates: The product is feasible if it is made fiqh compliant and it suggests that it should be made fiqh compliant based on the assumption that a loan is given to the state as qard-i hasen without any return and the state gives a gift in return for this debt, the gift given can be considered as interest if it becomes a custom.

b) Sell and Buy Back Government Investment Issues (GII): The product is based on the sale of a certain asset by the Malaysian government to an Islamic bank at a pre-agreed price and the repurchase of the same asset from the Islamic bank at a higher price in the future.

c) Asset-based ijarah sukuk: This product to be applicable in Turkey since it has the same characteristics as the lease certificates issued by the Treasury, which are also used in Turkey.

d) Collateralized murabahah: The product is based on the assumption that the underlying collateral is kept at the Central Bank until the payment transactions between Islamic banks and the Central Bank are realized.

e) Wadiah Aceptance: This is a product where Islamic banks with excess funds keep the excess funds at BNM and BNM is not obliged to make any payment for the excess. Although the product is suitable for use in our country, if the Central Bank is to make regular payments to the product, such payments would be considered as interest and therefore not in accordance with fiqh.

f) Bank Negara Money Certificates: On the other hand, are used for long-term liquidity management, issued by BNM with a maturity of 3 years, and if issued with a discount, the discount may be considered as reverse interest, and therefore not applicable for Turkey (Orhan, 2021).

3.1.2 Case of Pakistan

The two most common practices used by the Central Bank of Pakistan as a monetary policy tool are commodity murabahas/tawarruq as well as interest-free open market transactions through ijarah sukuk. Orhan in his study states that; the tawarruq transaction is the sale of the goods purchased from the seller on a deferred basis to another institution at a low price in cash and although there is no consensus among all scholars, it is a frequently permissible transaction. However, since the transactions are carried out on the London Metal Exchange, it is a fictitious transaction,

If the transaction remains as a fictitious transaction, it will not be in accordance with religion, a stock exchange where real transactions are carried out is needed for the product to be in accordance with fiqh. If the transaction in question is to be realized in our country, a stock exchange where real transactions are carried out, such as the Turkish Commodity Specialized Exchange is needed and the transactions realized through icare sukuk; It is thought that participation banks are invited by the Central Bank to sell certificates to be paid within (1) year at the latest, participation banks selling sukuk transfer the certificates in their hands to the Central Bank, the Central Bank can either hold these certificates until maturity or sell them in cash to participation banks with excess liquidity, however, the product does not meet all Islamic criteria, so it is beneficial to be hesitant in its use (Orhan, 2021).

In addition, the Central Bank of Pakistan uses 2 interbank products for monetary policy objectives. These products are interbank musharakah and interbank wakalah. In order for Islamic banks to borrow from each other, a benchmark rate called Islamic Interbank Offered Rate is used. Interbank musharakah is a short-term, restricted partnership in which banks are invited to invest in a special pool of assets with the aim of earning a predetermined rate of return. In an interbank wakalah transaction, the Islamic bank invests the funds provided to it in return for a service fee.

3.2 Monetary Policy Instrument Recommendations for the Central Bank in accordance with Islamic Financial Principles

Within the scope of our study, some of the products that are already used by some countries, some of which have been evaluated academically and some of which are considered to have the qualities that, if implemented, will strengthen Islamic finance, increase the recognition of Islamic finance in the market and increase the number of people reached by Islamic finance

, will be included. These products are listed below in the following order.

3.2.1 Gold Indexed Currency Project

The intellectual property of the first product to be discussed in this study belongs to Adnan Oweida. Adnan Oweida proposed a product based on the "Golden Dinar Project", which was put forward by Malaysian Prime Minister Mahathir Mohamad in 1997 to use it as an alternative to the US dollar as a medium of exchange in commercial transactions between Islamic countries. Oweida revealed that the product, which was also put into practice by a country with a relatively strong economy such as Malaysia, was not successful in the first phase due to the serious depreciation of both the dollar and the Euro as well as the rise in gold prices as a result of the global crisis at the end of 2008. Oweida first transformed the characteristics that a money to be used in the market should have, which are determined by modern economic theory, in accordance with the principles of Islamic finance and stated that a product that is assumed to replace money in the market should have the following minimum characteristics:

a) The substance constituting the money to be used must not be suitable for counterfeiting and must not be easily counterfeited.

b) The money must be recognizable by everyone. It should be sufficient for people to examine the money with the naked eye to determine whether it is real or not.

c) Money should be made of a material that is easy to transport and transfer and can be converted at a cost close to zero.

d) Money should be printed from low-cost materials that do not burden the country's finances.

e) Money should be suitable for division in such a way as to be able to carry out all kinds of commercial transactions in large or small amounts.

f) The money should be made of a material that is not easily affected by speculation in the foreign exchange markets.

Oweida said that gold is the substance that will carry the features he mentioned in this context, that a monetary policy based on gold can be implemented by all Islamic countries, If this monetary policy is adopted, the local currencies of Islamic countries will become fully indexed to gold and therefore the problems caused by moving away from the gold-indexed currency will be eliminated.

Gold-indexed digital currencies will be used by countries and that these digital currencies can be adjusted to represent 1/100 gram of gold at the lowest. Oweida states that there is no need to physically carry gold coins in daily transactions and that there is no need to carry printed gold coins due to the widespread use of electronic transactions today, This situation will also prevent counterfeiting and facilitate the transfer of money, if the proposed system is first accepted at the local level and successfully implemented it can be accepted at the level of states affiliated to the Organization of Islamic Cooperation and that Islamic countries will become stronger economically if money transfers between all Islamic countries are carried out through the system in question.

Oweida also emphasized that the system in question is based on solid foundations by drawing attention to the developments in blockchain technology, stating that it would be more beneficial to implement the proposal in question together with the blockchain technology, that it would not be possible to counterfeit the coins in question thanks to the blockchain technology, that the money can be divided into much smaller units thanks to the blockchain technology, so it would not be possible to produce gold coins in the desired amount with the decision of the governing bodies in the blockchain technology and that the money is far from speculation since it is indexed to the value of gold (Oweida and Samar, 2020).

The product proposed by Oweida can be used in transactions between Islamic countries. The product prevents the exchange rate risk arising from the increase in demand for these currencies, which are speculative in the event that EURO or USD is used during commercial transactions between Islamic countries.

In the previous sections of our study, we have discussed how the issuance of paper money was carried out and what effect it had on the market. In the first period when paper money was issued, it was indexed to gold and it was forbidden to print money without a gold equivalent.

In the following period, the United States, which gained economic power, started to print paper money without any equivalent. In addition, in an increasingly globalized world, trade relations between countries have reached very large amounts compared to the past. In bilateral trade relations, if the needs of the parties are not mutually reconciled, one country is a debtor and the other a creditor.

In addition, the debt-credit relationship between two countries is usually realized in foreign currency. The reason for this is that the currencies of each country are not valid in the international market. For example, in a trade transaction between Turkey and Palestine, the transaction between the two countries is usually carried out in foreign currency, since both sides do not need each other's currency.

If the foreign currency is the subject of the transaction, the USD is often chosen due to its intensive use in the international market. Therefore, both Turkey demands USD from the market due to its trade relations with Palestine and Palestine demands USD from the market due to its relations with Turkey. This increases the demand for USD in the market and causes the local currency to depreciate.

Since the volume of trade between countries has reached a very high level in the globalized world, the demand for foreign currency at the time of debt repayment can sometimes lead to a serious congestion in the economy of countries. Moreover, when two Islamic countries conduct transactions in foreign currency between themselves, it only increases the market power of that foreign currency.

The USD gains much of its power from the fact that it can be printed and traded in the market freely. The fact that Islamic countries conduct transactions even among themselves in USD only leads to an increase in this power over time. Therefore, in order to ensure that Islamic countries remain strong, it would be beneficial to encourage transactions in the market to be conducted in a different currency. The proposal for a gold indexed currency therefore makes sense and addresses the needs of the Islamic finance.

If we were to illustrate the issue through Turkey today; it is obvious that there is a serious shortage of foreign currency. The shortage of foreign currency indirectly leads to the failure to achieve price stability, which is the most important objective of the Central Bank. The whole market procures raw materials in USD and an increase in the USD exchange rate increases the raw material and then the final price.

The increase in the country's exchange rate is mainly due to the fact that the domestic supply of foreign exchange is not sufficient to meet the domestic demand for foreign exchange. If the country's trade transactions with Islamic countries are not denominated in foreign currencies, the amount of foreign currency in the market will decrease to match the volume of transactions with Islamic countries. For this reason, if transactions with Islamic countries are indexed to a different currency and this is implemented globally in all Islamic countries, Islamic finance will emerge from this situation with great strength.

Similarly, since the product is indexed to gold, it also avoids speculative movements. In addition, the fact that the product is indexed to gold prevents it from being easily printed at any time, thus preventing problems that may arise due to the printing of more and free money.

For this reason, it is thought that if the product is implemented by Central Banks, it will benefit countries that act in accordance with the principles of Islamic finance.

3.2.2 Income-indexed government debt securities

Income-indexed government debt securities, which were introduced in 2022 as a way out of the economic environment in our country, have been one of the products that have long been recommended for implementation in terms of Islamic finance. Until this time, income-indexed government debt securities, which have been operating as a repo-based practice in countries where conventional economics is often practiced, could not be applied as an instrument of monetary policy by Islamic countries due to their interest-containing nature.

In the early stages of the emergence of Islamic finance, it was proposed to purchase the shares of state-owned companies, but since this proposal was criticized because it could cause instability in the stock prices of the companies whose shares were to be purchased, Zangeneh and Salam (in 1993) suggested that a composite stock representing the shares of state-owned companies in state-owned banks should be used rather than the Central Bank purchasing the stocks of designated companies (Zangeneh and Salam, 1993).

Al Jarhi shared a similar proposal and suggested that as a monetary policy instrument, the Central Bank should issue central certificates of deposit on a profit-loss sharing basis to sell to citizens to withdraw money from the market during periods of economic expansion and to buy from citizens to inject money into the market during periods of economic contraction (Al-Jarhi, 1980).

Zaheer, on the other hand, argued that the state has undertaken a large number of development projects, which have resulted in a budget deficit, and that one way to close this budget deficit is to issue securities that do not offer a fixed interest rate but offer a return linked to the nominal gross domestic growth rate and that these securities should be used to build roads, dams, power plants, etc, that the state will offer to participate in state infrastructure projects, such as schools and hospitals, by buying shares; that the payment rate for security holders should be variable and not fixed from the beginning of the project in order to comply with Islamic principles; and that it is the responsibility of the state to ensure the correct calculation of growth and rates of return and to ensure transparency so that the rights of security holders are not violated.

The Bank has revealed that the transaction in question will lead the state to keep inflation under pressure due to the fact that excessive payments will be made to security holders in an inflationary environment; for this reason, the product in question is more suitable for developed countries due to both the necessity of making calculations accurately and transparently and the necessity of low inflation; the document indicating the security will be in the nature of sukuk and therefore it is possible to be traded in secondary markets or used for open market transactions; and the certificate of security ownership indicating partnership can be used as collateral in all areas (Zaheer, 2020).

Islam does not tolerate the accumulation of money. Many verses in the Quran condemn those who hoard money. One of the most important features of the Islamic financial system, which is based on this principle, is to direct the idle amounts of savings into the economy through investment. Most of the economic crises that countries often struggle with are caused by speculative movements.

Similarly, most of the speculative movements are caused by holding the amount of money in the market in order to use it in case of sudden increases that may occur in the future. During periods of intense speculative activity, people often seek to make a profit by taking out loans etc. from the market. During these periods, resources are often not available for projects that need to be realized by the state. In this case, either the projects are postponed or the state is forced to use foreign currency loans with high interest rates to realize the project.

Many Islamic countries do not yet have a sufficient level of development. These countries, which can be considered underdeveloped, often have to find external resources to realize both small and large-scale projects. Many Islamic countries, which are considered to be developing countries, also have to seek external resources to realize large-scale projects.

Nevertheless, people in both underdeveloped and developing countries keep their savings idle in order to benefit from speculative movements. The implication is that countries are often forced to borrow from abroad and foreign countries at high interest rates for projects that are intended to provide services to their own citizens due to the inability of their own citizens to draw their savings into the system for the purpose of generating income by taking advantage of speculative movements.

It is recognized that interest leads to a direct transfer of wealth. The country that receives loans at interest has to transfer the interest earned from the country's resources to the lending country when the loan is due for repayment.

Since the borrowing country is often in a financially difficult situation, the interest payment during the repayment period is a direct transfer of the country's natural resources or the income generated from these resources to another country. Interest also imposes an exponentially increasing liability.

To illustrate the issue in numerical terms, it would be useful to give the following example; a country that needs 200 units of money for a project to be realized, if it cannot realize this project with its own resources, requests a loan of 100 units from abroad with a one-year maturity at an interest rate of 10%. When the loan comes due, the debtor country will pay 110 units to the lender country.

If the loan that the country initially requests is due to the country's inability to generate resources, the country is expected to be unable to repay 110 units when the loan comes due. In this case, the country requests a loan of 110 units at a higher interest rate in order to repay 110 units. If the interest rate of the loan is set at 12%, the country will have to repay 123 units after 1 year. At the end of the (2) year loan story, a country struggling to find resources will have to transfer 23 units of its own resources to the foreign country. This transfer is the country's resources. If the loan is not utilized in the field of investment and will not yield a higher rate of return than the cost of the loan in the future, this will lead to the borrowing country becoming increasingly economically dependent on foreign countries. Economically dependent countries are often politically dependent as well. This leads to the inability of Islamic countries to live their own economic, political and cultural lives in their own countries.

At the time of this story, the country's households certainly had a large amount of savings that were either kept idle or not put into the market for other purposes. The countries exemplified above require large amounts of foreign currency during loan repayment periods and when loan repayment periods arrive, speculative transactions are often carried out in foreign currency.

Households, knowing or anticipating this, do not put their savings into the market and wait for the periods when speculative movements will occur. This is where the vicious circle begins in economic terms. The country cannot find sufficient resources for its investments. It realizes investments by borrowing from abroad.

Due to the financing shortage during the loan repayment periods, speculative movements are realized on exchange rates. Knowing that these speculative movements will occur, households either withdraw their savings out of the system or do not put their idle savings into the market. In this case, speculative movements during the loan repayment period both put the state in a more difficult situation and benefit those who want to profit from speculative movements. Therefore, bringing savings into the market is important for the healthy functioning of the system and for Islamic countries to gain both economic and political freedoms.

In order to finance the projects to be realized, the government will agree with the Central Bank to issue certificates with certain conditions representing the projects to be realized. For example, the government, which cannot find resources for the construction of a port to be realized with 100 million units, will negotiate with the Central Bank and carry out an issuance process consisting of 100 million units of certificates to finance the investment. Here, it is possible to determine the maturity of the certificates for 3-5-7-10 years. Investors willing to invest in the project should be guaranteed the income from the project by the state or the Central Bank.

If the port, which starts to operate after the completion of the project, generates a profit of 25 million units at the end of the year, certificate holders will receive a 25% return. In this case, the state would not have to resort to any external funding as it would be using money collected from the public to realize the project and it would not transfer wealth as it would not make interest payments.

Moreover, since the government will pay the investors once the port is completed and operational, the repayment to the investors will not create any financial burden for the government. Therefore, the government will not face any economic hardship both during the construction phase of the project and after its completion.

However, if the government realizes the works as stated and provides a high return to the public, it is expected that there will be a much higher demand for the transactions to be realized by the government in the following period. This means that in the future, the government will be able to realize a great number of large projects and contribute to the development of the country. In addition, the mentioned product is completely in accordance with Islamic principles due to the fact that it does not contain any interest, is realized in a beneficial area, and directs idle savings to investment. For this reason, it is thought that Islamic countries will gain serious benefits if the product is implemented.

The product; which was proposed in a very simple way by Zangeneh and Salam in the past, developed further by Al Jarhi and nowadays which can respond to even the most complex economic needs is a product that can be invested with peace of mind by people who have Islamic sensitivities and who have developed a reaction against interest in the form of profit-loss partnership in order to finance projects to be realized by the state and whose return can be indexed to both the return that can be obtained from the project and the increase in the gross domestic product of the state. Especially when considered together with the sensitivity against interest, as well as the feeling of financing large projects to be developed by the state, these products will attract high demand if they are well advertised by the State or the Central Bank and if it is stated to people with Islamic sensitivity that the products are completely in accordance with Islamic qualities and with this high demand, a large amount of funds can be collected.

If these funds are transferred to projects, Islamic countries will be able to realize their large-scale projects without being dependent on foreign investors, and if the projects are highyielding and provide high returns to their investors, they may change investor preferences in the following period and enable higher amounts of investment to be collected, and therefore, it is thought that it would be beneficial to be used by countries operating in accordance with Islamic finance.

3.2.3 Partnerships of the Central Bank and Participation Banks

The foremost of the tasks to be fulfilled by the Central Banks is to meet the emergency liquidity needs of the banks based on the Central Bank's status as the lender of last resort for all banks. In the functioning of the market, if banks need liquidity in any way, they must first meet this need through transactions among themselves and if this is not possible, the Central Bank must step in as the lender of last resort and meet the financing need.

Central Bank should become a shareholder in 25% of the capital of participation banks or a different percentage to be determined, that a partnership relationship will be established between the Central Bank and the participation bank separately from the title of lender and borrower, that the Central Bank will reach a permanent source of income and profit with the dividend income it will receive from the participation bank and that the Central Bank will be able to fulfill its status as the lender of last resort in accordance with the principles of Islamic finance (Faridi and Uzair, 1985).

Although this proposal may seem quite marginal today, when we consider that the FED which is the Central Bank of the United States of America today, was established in 1913 as a result of the partnership formed by 12 commercial banks under the guidance of US President Woodrow Wilson, it is understood that the proposal in mentioned is suitable for implementation and that there are similar ones in terms of both idea and implementation of the idea. Based on the example of the FED, Uzair also stated that the institution he proposed is more advanced in terms of central bank independence than the FED (Faridi and Uzair, 1985) As a matter of fact, in practice, if we compare the situation of the Central Bank, which was established with the capital of 12 different banks, against all banks in the market, and if the Central Bank becomes a shareholder of all banks in the market with a certain percentage in proportion to the capital of the banks without any discrimination, it is understood that the second scenario is more appropriate for central bank independence.

Shaikh criticized the idea of the Central Bank owning a certain proportion of shares in banks in proportion to their capital on the grounds that it could lead to a conflict of interest between the Central Bank as the market regulator and the bank as the regulated entity (Shaikh, 2010). Uzair on the other hand, argues that these concerns are not true and that the participation of central banks in participation banks can have many benefits, as detailed below (Faridi and Uzair, 1985.)

a) In this system, there will be no need for participation banks to pay interest or similar payments to the Central Bank in violation of the principles of Islamic finance in return for the loans received from the Central Bank due to the Central Bank's status as the lender of last resort.

We can also expand this issue as follows. In accordance with the reserve requirement ratios determined by the Central Bank in order to regulate the market, various payments in the form of interest are made by the Central Banks to the banks for the funds held by the banks at the Central Bank, and these payments are contrary to the Islamic principles of participation banks. Therefore, if the Central Banks become a partner of participation banks, the regulations to be made on reserve requirements will prevent participation banks from earning returns contrary to Islamic principles.

b) In the event that the Central Bank becomes a shareholder in participation banks, the Central Bank will gain a field of action in terms of supervising the activities of the banks in implementing the monetary policy that it will determine in accordance with the macroeconomic objectives on a national scale and supervising these activities for the purpose of achieving the objectives of monetary policy, and it is understood that the fact that the Central Bank is a shareholder in the boards of directors of these banks as a shareholder increases this opportunity. Therefore, the Central Bank will be able to directly control whether the instructions are followed or not in terms of the participation banks doing what is necessary to achieve the objectives of the monetary policy.

c) The success of the Central Bank indirectly depends on the success of other banks in the country. The fact that the Central Bank is a shareholder in participation banks gives the

Central Bank the authority to both monitor, supervise and guide the participation banks in terms of achieving their objectives, success and healthy development of these banks. In addition, the fact that the Central Bank will earn a return due to the partnership and the failure of the participation bank will cause losses to the Central Bank will enable the Central Bank to be more active for the success of these participation banks. In this way, participation banks will indirectly have a state guarantee in terms of their performance improvement (Güvenilir and Incekara, 2019).

In all economies, regardless of their type, the Central Bank is regarded as the bank of banks. Due to this characteristic of the Central Bank, it is considered natural for the Central Bank to have intensive relations with banks. The Central Bank both sets rules for the functioning of the market and supervises the fulfillment of these rules. In addition the Central Bank uses banks to achieve its monetary policy objectives.

Banks are the most important partners of the Central Bank to achieve its monetary policy objectives. In the absence of the aforementioned link between the Central Bank and banks, it will not be possible to achieve monetary policy objectives.

Therefore, it is important to recognize the importance of the relationship between the Central Bank and other banks. However, the Central Bank's relations with participation banks develop differently from other banks. In economies with a dual financial system, the Central Bank conducts transactions based on interest-bearing principles. This affects the nature of the relationship between participation banks and the Central Bank.

Since participation banks cannot carry out interest-bearing transactions, their relations with the Central Bank are narrower compared to other banks. This causes participation banks to lag behind other banks in terms of competition and makes it difficult to achieve monetary policy objectives through participation banks. For this reason, if a partnership is established between the Central Bank and participation banks, the interest problem arising from the obligations that participation banks must fulfill before the Central Bank will be eliminated. In addition, the Central Bank will have direct influence over the participation bank due to the partnership relationship and will be able to control the effectiveness of the transactions that the participation bank will carry out to achieve its monetary policy objectives.

The idea of the Central Bank becoming a partner in participation banks, which was first put forward by Uzair, may seem new and interesting in terms of Islamic finance terminology. However, the fact that it has been put into practice by the US Federal Reserve shows that the proposal is feasible.

In addition, the fact that the principles of Islamic finance encourage profit-loss partnership and that the relationship to be established between participation banks and the Central Bank is in the nature of a profit-loss partnership makes the partnership relationship compatible with Islamic principles.

With the establishment of this partnership, the doubt as to whether or not the product in question complies with Islamic principles will be eliminated both on the provision that participation banks will pay for the financing they will obtain from the Central Bank due to the Central Bank's status as the lender of last resort and on the payments they will obtain from the Central Bank for the required reserves they keep with the Central Bank. Therefore, it is thought that the implementation of the product by countries implementing Islamic finance will result in favor of Islamic banks and the Central Banks will become a direct management partner in these banks, which will facilitate the achievement of monetary policy objectives.

3.2.4 Central Bank Musharakah Certificates

The product is an instrument based on the Central Banks' deposit holdings in conventional or participation banks and thus their equity in these banks. Since the product can also be issued in an interest-free form, it will be considered as a monetary policy instrument for participation banks.

The product is basically based on the logic of issuing certificates based on the Central Bank's profit. Since the certificate can be bought and sold in secondary markets, the product can also be used by the Central Bank as a monetary policy instrument. The profit-sharing agreement between the Central Bank and the investor who wants to purchase the certificate is securitized and issued to the market. Since the certificate holder can buy and sell the certificate in the market even before its maturity, it is possible for the product to circulate in the market and be liquidated quickly. Indexing the product to the Central Bank's profit poses various difficulties since Central Banks often operate in a profit-neutral manner, taking into account the country's economy and macroeconomic balances. For this reason, in practice, the product is issued by indexing the profit earned by the funds held by the Central Bank in commercial banks rather than the net profit of the Central Bank (Sundararajan et al., 1998).

Marson, Shabsigh and Sundararajan (Marson, Shabsigh and Sundararajan, 1998:12) stated that certain conditions must be met for the product to function properly and listed these conditions as follows;

a) Provide a transparent return/dividend measurement for investors, as Central Bank profits are difficult to measure and sometimes kept secret for the sake of the country,

b) A clear determination of the value held by the Central Bank in banks,

c) Transparently and periodically evaluating the funds held in banks, as well as providing other information required by the market on fund performance,

d) In order to ensure depth in secondary markets, a suitable structure should be developed. In addition, investors should be reassured that the Central Bank will rebuy the certificates at any time.

Marson, Shabsigh and Sundararajan stated that the certificate should also have certain qualities in order to be used as an instrument to achieve monetary policy objectives and summarized these qualities as follows;

a) In order for the Central Bank to effectively communicate monetary policy signals to the market, the instrument should be widely held,

b) In order for monetary policy actions to have an impact on banks, banks should be allowed to use the certificate to manage their reserves,

c) Certificates should be issued at the lowest possible price and with the lowest possible investment risk in order to increase their preferability over other instruments,

d) In order to increase the liquidity of the instrument, it should be possible to make transactions in the primary market with the Central Bank at any time at a certain price to ensure that the purchasers do not incur losses as a result of the issuance (Sundararajan et al., 1998).

Musharakah certificate which is used by the Central Bank of Iran and through this product, people can become partners in very serious investment projects for very small amounts of money and moreover, since people can enter this market even with small amounts of money, a very serious group of people can be reached and the Central Bank has increased its success in both accessing the market and influencing micro and macro economic variables (Kiaee, 2007).

The functioning of Central Bank Musharakah Certificates can be explained as follows: An indexed fund is created by the Central Bank. This fund can be indexed to the profit of the Central Bank during the year or to the increase in the return of the assets owned by the Central Bank during the year.

Here, it will not be possible to index all products of the Central Bank due to the condition that the product must be in compliance with Islamic principles. For example, since the Central Bank is the lender of last resort, it would not be in accordance with the principles of Islamic finance to include in the fund an account containing the interest collected by the Central Bank from the financing it provides to conventional banks.

Once the Central Bank has established an indexed asset that is fully compliant with Islamic principles, the Central Bank announces it to investors. Investors decide whether or not to invest in the issued certificate based on the principles announced by the Central Bank. In order to ensure the matters specified herein by the Kiaee;

a) In order for the certificate to be issued and to be sold at low share amounts, it must be issued at very low amounts per share. To give an example from Turkey; for example, if the minimum sales amount of the certificate is set at 100 liras and each share is set at 1 lira, even a student with an idle 150 liras can invest in the system.

b) In order to attract a large number of investors, the certificate should be issued for both very short-term and very long-term. For example, a citizen who is saving money to buy a house and who keeps his/her money away from the interest-bearing system of conventional banks due to Islamic sensitivities may want to save his/her money in this system by indexing it to the Central Bank's income in the long term.

The Central Bank has to influence the money market to achieve its monetary policy objectives. The success of the Central Bank's policies will be determined by the extent to which it influences the market.

If the Central Bank reaches a large number of people in the market and these people are guided by the Central Bank, it will be easier for the Central Bank to achieve its monetary policy objectives. If the Central Bank makes a serious promotion and offers products to the market that are indexed to its own income, investors will make serious investments as a result of their confidence in the Central Bank since the Central Bank creates the product.

The possibility of selling the certificate in secondary markets will enable the Central Bank to achieve its monetary policy objectives. In order for the certificate to be traded in the secondary market in a healthy manner, the value of the fund created by the Central Bank should be measured on a daily basis.

Based on the amount determined on a daily basis, the Central Bank either sells certificates or reimburses the investors for the sold certificates at the determined price of the certificate on the maturity date of the certificate held by the investors. In this case, the Central Bank can prevent inflation by reducing the amount of money in the market by increasing promotions and certificates issued during periods of economic expansion. Similarly, during periods of economic recession, the Central Bank acts to collect the certificates in the market and will try to revive the economy by offering money to the market while collecting the certificates.

As a result of the evaluation of all the above-mentioned issues together, it is considered that the product is in compliance with Islamic financial principles, it will provide access to customers with Islamic sensitivities, it is possible to sell the product in the secondary market, and for this reason, it can be used by the Central Bank to achieve monetary policy objectives.

3.2.5 Central Bank Affiliate Institution and Certificate of Association

Within the scope of our study, it has been stated that participation banks cannot enter into any kind of relationship with the Central Bank due to the interest-bearing transactions of the Central Banks. If a placement account is established in which the income items of the Central Bank are recorded separately and this organization operates independently of the Central Bank, participation banks can become a partner of the Central Bank by purchasing the securities issued by this organization (Kazancı, 2019).

The principles for the operation of the product are detailed below: In the functioning of the product; the balance sheet items of the Central Bank are examined one by one and the Central Bank income items that are considered to be interest-free are reported to the advisory board in the most detailed manner. The Advisory Board evaluates these income items in accordance with the principles of Islamic finance and eliminates products that do not comply with the principles of Islamic finance. A separate placement account is established with the income items considered by the Advisory Board to be in compliance with the principles of Islamic finance.

The account is under the management of the Central Bank and is financially dependent on the Central Bank. However, it will constitute the budget of a separate organization in terms of income and expenditure items. The created institution may issue securities on its own behalf within the scope of the Central Bank's monetary policies.

The created subsidiary institution manages its assets with the interest-free income and expense items of the Central Bank. The new organization does not contain any negative aspects contrary to the principles of Islamic finance. Therefore, it allows participation banks to become a partner in a completely interest-free organization.

The product issued by the Subsidiaries Agency is called the Central Bank partnership bond. The functioning of this certificate is as follows: The Central Bank issues the partnership certificate to the primary market. The participation bank buys or sells the certificate received from the Central Bank in the stock exchange according to the liquidity surplus or deficit. In addition, with the start of the sale of certificates in the secondary market, conventional banks will also be able to make transactions, which will increase financial deepening. When the Central Bank collects the certificates it has sold from the market, the certificates will have completed the achievement of the monetary policy objective. The difference between this product and the product described above is the difference between the investors to which the product is offered. Central Bank Musharakah Certificates are issued to cover all types of investors, including individual investors. Affiliate Institution is established for the transactions of the Central Bank with participation banks in the primary market and with all kinds of financial institutions in the secondary market.

If the product detailed above is used, participation banks will earn income by directly purchasing the certificates issued by the Central Bank regardless of any conditions or collateral or liquidity surplus/deficit. The Central Bank will also have the opportunity to use a different instrument to achieve its monetary policy objectives by issuing these certificates.

The institution that will carry out the deposit account where the income and expenditure accounts are created is called special purpose vehicles in practice. This institution exists in many countries operating in accordance with the principles of Islamic finance. The institution operates for quite different purposes in many countries. In practice, the Central Bank of Bahrain has also established a special purpose vehicle. If the Government of Bahrain needs financing in any way, it notifies the special purpose vehicles and sells a real estate owned by it to the institution. After the institution purchases the real estate, the government continues to use the real estate as a tenant. Sukuks issued by the Central Bank indexed to real estate are also used as monetary policy instruments.

Affiliates institution will have objectives such as establishing all kinds of relations with the participation bank, collecting the required reserves of participation banks on behalf of the Central Bank, buying and selling Islamic securities available in the market, performing the Central Bank's last lender of resort duty through its own accounts, carrying out the regulatory actions to be played by the Central Bank on participation banks and developing new tools and practices to eliminate the problems that may arise between the Central Bank and participation banks and therefore cannot be considered as special purpose vehicles (Kazancı, 2019).

As a result of the evaluation of the mentioned issues together; it is considered that the establishment of the subsidiaries institution proposed by Kazancı and the separation of its income and expenses from the interest-bearing items of the Central Bank may be a solution to many problems experienced by participation banks, so it is beneficial to establish it.

3.2.6 A Special Proposal for Turkey: Income Sharing Securities in Cooperation with the Wealth Fund and the Central Bank

The Wealth Fund was established by Law No. 6741. On its website, the Fund describes itself as: "*Turkey Wealth Fund is a Turkey-based company established by law in 2016 to manage affiliated companies.*"[11] definition of the Wealth Fund as a direct company reveals that the main objective of the fund is to make a profit. In addition, the company's website lists the institutions in the company's portfolio as follows; "Ziraat Bankası, HalkBank, Vakıfbank, Borsa İstanbul, Türkiye Sigorta, Türk Hava Yolları, PTT, İzmir Alsancak Limanı, Botaş, Türkiye Petrolleri, TVF Enerji, TVF Rafineri ve Petrokimya, Turkcell, Türksat, Türk Telekom, Platform Ortak Kartlı Sistemler AŞ, Çaykur, Kayseri Şeker, Türk Şeker, Eti Maden, Türkiye Maden" (Turkey Wealth Fund, n.d.). Article 1 of Law No. 6741 on the Establishment of Turkey Wealth Fund Management Joint Stock Company states that one of the purposes of the law is to "*contribute to the diversity and depth of instruments in capital markets*".

Within the scope of our study, since a product proposal will be made to the Central Bank in order to deepen financial markets, it is reasonable for the Central Bank to develop instruments to achieve its monetary policy objectives based on the sovereign wealth fund law, the main purpose of which is to increase the range of products that will deepen financial markets.

It is possible to create an income pool by selecting various companies or sectors from the 27 companies held by the Wealth Fund in its portfolio. In return for the revenues of these companies or the sectors, bonds can be issued indexed to the revenues of the institutions

[11] Retrieved from Turkey Wealth Fund (n.d.) https://www.tvf.com.tr/ ; access date: 26.07.2022.

determined by the Central Bank. Since the bond issued is in accordance with the principles of Islamic finance, it can be used by the Central Bank as a monetary policy instrument.

As a result of the negotiations to be held by the Central Bank and the Wealth Fund, the nature of the asset underlying the bond to be issued should be determined. For example; the energy sector institutions in the Wealth Fund's portfolio can be considered as a basket and bonds indexed to the revenues of energy institutions can be issued, or bonds based on the periodic revenues of only one energy institution in the portfolio can be issued.

For example; Bonds can be issued indexed to BOTAŞ's weekly, monthly, quarterly, semi-annual, annual and triennial revenues. Similarly, the maturity of the bond issued can be determined as weekly, monthly, quarterly, semi-annually, annually and triennially. Since the maturity of the bond is determined between weekly and tirennially, it makes it possible to issue both short-term and long-term bonds. In addition, if the bonds issued are allowed to pay coupons/returns at specified interim periods regardless of the maturity of the bond, the attractiveness of the bonds to investors will be increased and frequent intervention in the market will be possible. In addition, if the Central Bank wants to provide liquidity to the market, it will stimulate the economy by redeeming the bonds early and injecting money into the market during periods of contraction.

The transaction is based on mudaraba, a product in accordance with the principles of Islamic finance. While the participation banks investing in the bonds issued are in the role of capital owners, the company whose income is indexed to the bonds and which is included in the Wealth Fund is the owner of labor. The income generated by the labor-owning company by putting forth its labor will be shared with the participation bank that contributes capital over the sharing ratio determined at the beginning.

How the product will work as follows;

1) The right to use the revenues of the companies within the Wealth Fund that operate in accordance with the principles of Islamic finance shall be transferred to the Central Bank.

2) The Central Bank collects demand from both individual or institutional investors and participation banks. The product is also open for investment by conventional banks.

3) On the basis of the collected requests, the Central Bank issues income participation certificates to investors who will share in the revenues transferred to it by the Sovereign Wealth Fund.

4) The prices of the income partnership bonds are collected in cash from the demanders and the sales process of the issued bonds is completed.

5) With the liquidity withdrawn from the market, the first stage of the monetary policy processes is completed and the collected liquidity is transferred to the Wealth Fund, which is the actual owner of the income underlying the bonds.

6) On predetermined coupon payment dates, the Central Bank pays the investors according to the rate determined from the income of the company in the Wealth Fund portfolio.

7) On the redemption date written on the issued bonds, the Central Bank pays the principal and profit to the investors. Thus, the second stage of the monetary policy is realized and the income partnership securities issued based on corporate revenues have completed their mission.

Regarding the jurisprudential aspect of the above-mentioned income partnership bonds, they can be considered as a qard contract due to the fact that they can be converted into money at any time and are guaranteed to be repaid in kind.

So far, no practice has been carried out to show that any type of income partnership bonds are contrary to the principles of Islamic finance and are prohibited. For this reason, it can be considered as a beneficial and permissible product in accordance with the principle of maslahat, since it benefits both the investors and the public and the banks. Some jurists, such as Bayindir, have stated that income partnership bonds are similar to variable interest bonds in that they promise their holders a guaranteed income with a certain percentage of principal and that they are not permissible because they guarantee both capital and return and that these income partnership bonds would be permissible if they are a temporary transfer of some halal revenues that are the right of the state to investors in exchange for bonds (Kazancı, 2019).

As a result of the evaluation of all the mentioned issues regarding the income partnership securities; the product can be used by the Central Bank as a monetary policy tool. The Central Bank can withdraw excess liquidity from the market by issuing that bonds in inflationary environments, if the investors are given the opportunity to cash out that bonds at any time.

The economic course can be affected by issuing the bonds without waiting for maturity in periods of economic contraction, and the product in question is very attractive for investors since the income of the bonds is indexed to the income of public institutions in the portfolio of the state, In addition, it is also thought that both individual investors, conventional financial institutions and other institutional investors as well as participation banks will be able to make a demand for the issued income partnership bonds. Therefore, the product will provide financial deepening and is an instrument in accordance with the principles of Islamic finance that can be used to achieve monetary policy objectives and if implemented it will be benefical for the country’s economic management.

The purpose of all of the products proposed above within the scope of our study is to deepen the Central Bank's relations with participation banks or to enable investors who cannot trade in the market due to interest sensitivity to take part in the market. As mentioned in the previous sections of our study, the Central Bank operates to realize its monetary policy objectives.

The success of these activities depends on the interest of household investors or financial institutions in the instruments used by the Central Bank. In an economic environment where monetary policy instruments are not used in accordance with Islamic principles and where both conventional financial institutions and Islamic financial institutions exist, it is not easy for the Central Bank to reach Islamic financial institutions and investors who maintain their Islamic sensitivities in the economic environment.

In the case of Turkey, assuming that the market share of participation banks is approximately 10% and that people who do not participate in the conventional financial system due to Islamic sensitivities constitute 10% of the investors in the money market, it is understood that the Central Bank's monetary policy tools cannot reach 20% of the investor mass. For this reason, it will be easier for the Central Bank to achieve its monetary policy objectives if products are developed in accordance with the principles of Islamic finance.

For this purpose, even if the products proposed above seem similar to each other, it is suggested to design a product for ongoing public investments in one proposal, for a public company that emerged as a result of a completed public investment in another proposal, and for the companies held by the sovereign wealth fund individually or as a sector as a whole in another proposal. Since the products are aimed at both investment projects and existing businesses, both short-term and long-term investments are possible. In addition, the products proposed for the relations of participation banks with the Central Bank are expected to eliminate the competitive disadvantage of participation banks compared to conventional banks. In this case, it is thought that participation banks will emerge stronger from the competition with conventional banks, which will lead to the development of Islamic finance.

EVALUATION

Most of the countries that make up the Islamic world gained their political independence at a late date and in this process, the countries spent almost all their power to gain their political independence. In the process of establishing the administrative institutions of the countries after gaining political independence, economic institutions were designed in accordance with the Western paradigm. For this reason, the economic management of many Islamic countries today has adopted principles based on Western paradigms rather than Islamic principles.

The Western paradigm contradicts Islamic values even in the most basic assumptions. One of the most basic economic principles that is generally accepted today is that unlimited human needs are met with limited resources. The science of economics was founded on this assumption and many theories have been developed based on this assumption. At the very beginning, this assumption is incompatible with Islamic principles. According to Islamic principles, human needs are limited and the resources to meet these needs are unlimited. Therefore, there is an allocation problem rather than a supply problem.

The most important way to solve a problem is to first understand the problem. In an environment where the problem cannot be understood correctly, it will not be possible to put forward a correct answer. For this reason, even if the problem is solved based on the assumption that resources are limited in the Western paradigm, the solution will not be in accordance with Islamic principles. For this reason, in order to find a solution in accordance with Islamic principles, it will be necessary to look at the problem in terms of Islamic values. This necessitates the adoption of an Islamic financial system based on Islamic principles.

In addition to the necessity of looking at the current economic problem from an Islamic perspective, it is obvious that the economic system based on Western principles that has been applied so far has often produced crises, very serious sociological problems have emerged as a result of the crises, these problems have hurt a very significant number of people, and that the crises produced by the system are often repeated in a cycle.

For this reason, it is possible to claim that a system which, by its very nature, constantly produces crises has failed. Claiming the failure of a system is meaningless if you cannot come up with an alternative to it. Therefore, if we want to talk about the absolute failure of the capitalist system based on the Western paradigm, we need to come up with an alternative. There are serious differences between the capitalist system based on the Western paradigm and the Islamic financial system based on Islamic values. These differences cause the outcomes of the two systems to be very different.

CONCLUSION

The capitalist system has the following characteristics: it is regulated only by law, it pursues only profit maximization, it allows investment in any field, it permits the printing of paper money without reserve, it is susceptible to risks arising from moral hazard and speculative attacks, and the whole system is based solely on interest rates.

Unlike the capitalist system, the Islamic financial system is based on the principles of the Qur'an and the Sunnah rather than the law, does not adopt profit maximization as the sole objective, aims to achieve various social objectives, does not allow investment in areas that are not approved by religion, does not approve any process that does not have a real return in commercial life, does not involve moral hazard and the risk of speculative attacks due to the assumption of honest relations between people, and completely excludes the interest rate.

The Islamic financial system's opposition to the printing of free paper money and its complete exclusion of interest from the system stand out as the most prominent and the most challenging aspect of Western economic paradigms.

Unbacked paper money is one of the most important reasons for the Western-adopted way of managing the economy today. As discussed in detail in our study, the introduction of paper money has led to the Western domination of the entire economic market over time. Today, no matter which country you are in, if money is printed by the economic administration and this money printing is not based on a real economic reason, there is only one result: inflation. However, the US dollar today can be printed unlimitedly, and since the printed money is distributed all over the world, there is no such problem as inflation. This makes the continuation of the Western paradigm imperative. If an economic system hinders the Western paradigm, if it develops an alternative model to paper money and interest, it is normal for this system to be blocked.

Moreover, interest is one of the most important institutions underpinning the current system. If interest is removed from the capitalist system, it will not be possible for people to save and direct these savings to investment. In the capitalist system, financial institutions rent the savings accumulated by citizens in exchange for interest and sell these savings to those who will invest them at a higher interest rate. The whole system is based on the sale of deposits collected from citizens to investors. If deposits cannot be collected from citizens or if the deposits cannot be sold to investors, the system will not function.

In addition, the ability of people to put their savings into the financial system, as well as the use of savings as loans, also depends on interest rates. If interest rates are not at a rate that will allow people to save or if interest rates are not at a rate that will allow people to invest, the system will not work. Therefore, the capitalist system will work on the basis of set interest rates.

Interest has been prohibited by all religions up to this time. If interest is used, people will not actively work, but will rent their savings to others and earn money on the labor of others without working. For this reason, interest is not tolerated by any religion. Islam emphasizes the profit-loss partnership system as an alternative to interest. In the profit-loss sharing system, the investor will be responsible for the possible losses that may arise, so investment decisions will be made much more carefully than in the interest-bearing system. For this reason, investment transactions in the Islamic financial system are healthier and more reliable than investment decisions in the capitalist system. This makes the Islamic financial system more resistant to crises.

Today, almost all countries that have adopted an economic system based on the Western paradigm are in a continuous cycle of economic crises at very short intervals. Crises are usually caused by the desire for constant profit and can affect the whole world at the same time due to the increasing globalization of the world. The recent crises over cryptocurrencies are a case in point. Cryptocurrencies, which do not have any real value and are the subject of speculative attacks, have seen very serious demand, and their prices have risen excessively as demand has increased. There is no economic reason for the increase in prices, it is entirely based on people's desire for excessive profit. Therefore, the system will directly collapse at the point where excessive profit stops. Because it is not possible for something to make excessive profits forever.

The Islamic financial system has consistently demonstrated significant achievements compared to the conventional economic system due to the principles it has adopted in the countries where it has been implemented so far. Since there are no possibilities in the Islamic financial system such as carrying out any commercial activity that does not pay off, making an investment that is not considered appropriate by Islam, carrying out a transaction only for profit-making purposes, and speculative attacks, the Islamic financial system has shown a more successful performance against crises than conventional economics.

In addition to this performance, when we draw a projection for the future of the Islamic financial system, it stands out that the Islamic financial system has very prominent features. Islamic countries are progressively increasing their share in the world economy.

Islamic countries have a younger population compared to other countries. Islamic countries are becoming significantly richer. The accumulated wealth enables countries to invest in areas in accordance with Islamic principles. The profitability in the Islamic financial system is much higher than in conventional economics due to the serious analysis of Islamic investments. High profitability also increases the interest of investors in the Islamic financial system.

For this reason, the leading countries of the world today are also investing in the Islamic financial system either directly or indirectly. Today, the most significant investments in Islamic finance in the world in terms of numbers are made by the countries of the United Kingdom. This shows that Islamic finance will be even more influential in the future and will have more say in the world economic system.

Although Islamic financial institutions have existed since the time of the Prophet (PBUH), it is only very recently that the entire economic structure has been designed in accordance with Islamic values. In the 1970s, the first institutional steps of Islamic finance were taken in Islamic countries as a result of the significant accumulation of wealth due to the oil crisis. The first steps were mostly directed towards the institutions that form the basis of the system, while the detailed steps were left for later periods. For this reason, Central Banking in accordance with Islamic finance values is not yet a very developed field.

Today, in most countries where Islamic finance values are practiced, a dual economic system is in place. Except for a few exceptional countries, it will not be possible to talk about any Central Bank that is completely in line with Islamic values. Central Banks, which have existed in an economic environment suitable for conventional economics for many years, have determined the principles on which these institutions will operate when institutions suitable for Islamic finance have emerged. Therefore, even if the Islamic financial system was implemented, it was not fully in line with Islamic values. This resulted in the expected success of Islamic finance either not occurring or not being as successful as expected.

In many countries, institutions that comply with the Islamic financial system are obliged to conduct operations in accordance with the monetary policy adopted by the conventional

Central Bank. Central Banks implement monetary policy to achieve various economic objectives of the country. The success of monetary policy depends on the adoption of the policy by the actors. If the monetary policy implemented is not adopted by institutions in accordance with Islamic finance, it will not be possible to talk about the success of the implemented policy. For this reason, the monetary policy instruments to be implemented by the Central Bank should also include institutions operating in accordance with Islamic finance.

POLICY RECOMMENDATIONS

Within the scope of our study, examples of monetary policy tools that the Central Bank can use in accordance with the Islamic financial system are given. Today, that the monetary policy tools used by Central Banks in OIC countries in accordance with the conventional economic system are not fully in line with Islamic values. It is thought that the following benefits will arise if the products proposed in our study are used:

- Islamic countries frequently face exchange rate risk due to the foreign currencies used in their countries today. It is believed that if Islamic countries adopt a gold-indexed currency both internally as a country and mutually in international relations and use it as a substitute for gold, all problems arising from exchange rate risk will be eliminated.
- Since interest is prohibited in Islamic countries, both financial institutions and interest-sensitive investors cannot use interest bearing instruments. For this reason, if investment products that are not indexed to interest rates are created, it is thought that both large-scale public projects can be realized without the need for external financing and resources can be provided for new projects. In addition, since the projects will be realized with the amounts obtained from domestic resources, it is thought to benefit the political and economic independence of Islamic countries.
- Today, in countries where the dualist economic system is applied, there are various incompatibilities between Islamic financial institutions and Central Banks. The

Central Bank does not pay interest on the required reserves held by participation banks at the Central Banks, which causes participation banks to fall behind in competition compared to conventional banks. With the partnership to be established between the Central Bank and Islamic financial institutions, it is thought that participation banks will gain a competitive advantage, will not keep their resources idle, and this may lead to more resources being transferred to the market for investment.

- Participation banks are unable to invest the excess funds they have in any field, which leads to idle funds. It is thought that the idle funds will be transferred to the market, the profitability of the participation banks will increase, and many investments can be easily financed through the takaruz transactions to be realized between the Central Bank and the participation institutions.
- The state organization is considered as a whole and the economic management of this organism is undertaken by the Central Bank. For this reason, it is thought that by allowing participation banks to invest in an index created by the Central Bank from various public institutions, it may lead to both an increase in the profitability of participation banks and an increase in their profitability by providing financing to public institutions and growth by making new investments.

As a result of the evaluation of all the issues mentioned in our study; The Islamic financial system is still very young, the institutional foundations of the system have only recently been laid, so the institutions for monetary policy in the Islamic financial system have not fully emerged, the Islamic financial system is generally used in countries that apply a dual financial system, for this reason, the monetary policy implemented by the Central Banks in these countries in accordance with conventional principles does not comply with Islamic principles, and monetary policy in accordance with Islamic principles is more successful against crises.

It is thought that Islamic finance is gradually spreading and increasing its market share globally, that it constitutes a very serious alternative to the current economic system, that if the system is successful, Islamic countries will gain a lot of power from this situation and this will benefit Islamic countries in terms of providing both political and economic independence, and it is thought that the implementation of the issues mentioned in our study by Central Banks operating in accordance with Islamic financial principles will be beneficial.

Although the issues addressed in the study are aimed at increasing the impact of monetary policy in financial markets by making the relations between Islamic financial institutions and the Central Bank in accordance with Islamic principles, it has been possible to make suggestions to many different institutions as a result of this study.

Participation banks operating in accordance with Islamic finance will be able to increase their profitability due to their transactions with the Central Bank if they use the products specified in this study and ensure their widespread use in the market. Moreover, these banks will bring many customers to their banks due to the transactions they will intermediate. The successful structure of Islamic finance against crises will, in time, make Islamic finance more widely known throughout the economy, increase its market share and thus indirectly increase the power of the Islamic world. For this reason, it will be beneficial for banks operating in accordance with the principles of Islamic finance to adopt the products mentioned in this study, to carry out transactions with the Central Bank using these products, and to try to gain customers by effectively promoting both products and Islamic finance.

Central banks in economies with institutions operating in accordance with the principles of Islamic finance cannot ignore Islamic financial institutions if they want to increase the deepening of financial markets and spread monetary policy to all actors in the economy. Therefore, monetary policy will be more effective and faster if central banks adopt the products mentioned in this study that can be used as monetary policy instruments, make them widespread, and use them in their relations with institutions practicing Islamic finance. This will facilitate the achievement of the country's economic objectives and thus have a positive impact on the country's development.

Until now, there is a significant gap between Islamic-sensitive clients and those with Islamic sensitivities trading in the financial markets. If the customers with Islamic sensitivity use the products mentioned in this study, they will be able to earn high returns and increase the market share of Islamic financial institutions and then strengthen Islamic finance and strengthen Islamic countries. Moreover, from a spiritual point of view, if these people are investing in instruments that do not comply with Islamic principles, attracting these people into the Islamic finance system will make them morally happy.

Academic studies will ensure the success of Islamic finance, increase its market share and become an alternative to conventional economics. For this reason, it is essential for the success of Islamic finance that academic studies are carried out with great seriousness and that they focus on topics that have not yet been addressed.

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