

Fatawa Inflation and Indexation 2004

Indexation and Indexed Bonds

SUBJECT: indexation and indexed bonds

From: husam

Sent: Monday, September 13, 2004 11:14 AM

Question:

Dear brother:

From what I read from your fatwa (included below), is it correct to assume that if the government introduce a product that you can put your money in and compensate you for the loss of the value of your money by indexing this product to the rate of inflation (no more or less) is it then Halal. As this product is a government regulation available to everybody. so every citizen who have extra money can put his money in this product and the government who is responsible for the inflation will be compensating each of these citizens for the erosion of the value of their money by inflation. And who wishes not to participate then he bears the responsibility of the loss of the value of his money. And who does not have any extra money he has lost nothing. So it is fair to everybody.

I am just drawing similarities from your fatwa.

In other word what is the current opinion about indexation is it still controversial, is there still some scholars argue for it permissibility?

Housam

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Hussam

Do you notice that your conclusion in regard to my fatwa is like what happened to Ibn Abbas when he was asked whether God may forgive a killer and once he said no while he said yes in another occasion! The difference was the first questioner wanted to kill and was looking for a way out before hand the other have already committed a murder!

My Fatwa deals with an increment imposed on debtors (all of them) as indexation because inflation took place. You incorrect analogy was about contracting the government to give an increment over a loan I will give it!

They are not the same!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Hussam

Sent: Wednesday, September 22, 2004 8:27 PM

To: Monzer Kahf

Dear brother:

1- The question that you were asked indicate that the bank continues to add an extra amount of money to the deposit to compensate for inflation, it does not say that the inflation happened once and the government is compensating the depositor for that time only, it is stated in the question "" The bank continues to add some profit to our money. So in this case will it be Sood (interest)?"

so according to the question the depositor is anticipating continued additions to his deposit if inflation continued in the future, so the analogy was the same you deposit the money with the government and you expect the government to compensate you if only inflation happened.

YOUR RESPONSE TO THE QUESTION INDICATES AGREEMENT WITH THIS ONGOING COMPENSATION FOR THE INFLATION.

2- I am also confused about your dates, you stated that" I go along with the prohibition of indexation of debts because it is Riba. This is also the opinion of the OIC Fiqh Academy in its 2001 resolution"

But when you answered the question in AUGUST 2002 you stated "The Reason is that indexation is controversial, and some scholars argue for its permissibility and in controversial matter we don't hassle to Prohibition."

Weren't you aware of the 2001 resolution when you answered the question or did you change you mind

3- How can I get the QIC resolution, is there is an internet link or a web page for the QIC resolutions especially the one about indexation.

housam

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi

Ajma'in

Dear Br. Hussam,

Then I must have made a mistake!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Government-Imposed Indexation

SUBJCET: Indexation by government regulation

From: Islam-online.net

Sent: August 14, 2002

Name of Questioner ZA

Country of Origin Pakistan

country of Res. Pakistan

Question

The inflation rate in Pakistan is fast increasing. Keeping this in mind if we deposit some amount of money in our bank, after 5-10 years it will be of no value! The bank continues to add some profit to our money. So in this case will it be Sood (interest)?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. ZA

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If what is added to you account is in implementation of a government regulation to compensate for inflation for all debts, i.e. what is called indexation, this addition is not forbidden and you may take it. Otherwise it is Riba (interest) and it is Haram whether the rate of inflation is greater or smaller. The Reason is that indexation is controversial, and some scholars argue for its permissibility and in controversial matter we don't hassle to prohibition. Interest is not controversial, it is forbidden. And it is scientifically incorrect to claim that interest is in compensation for inflation.

Interest is the price of money whether there is inflation or not.

Wa Allahu A'lam

Wa Alhamdu li Allahi Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Indexation and the prohibition of Riba

SUBJECT: Indexation and the prohibition of Riba

From: Islam on line

Sent: June 10, 2002

Name of Questioner

Nabeil

Gender Male

Age 21-30

Education

Post Graduate

Country of Origin

Yemen

country of Res. U K

Question

Assalamu Alaikum and May Allah reward you greatly for this blessed service. This question consists of two parts. Nearly 3 years ago I took out a student loan. The only interest on this loan is that corresponding to the rate of inflation (i.e. the natural increase/decrease in the value of currency). (i) Was this loan Halal/Haram? (ii) Should I repay this loan as soon as possible? Why I ask this 2nd question is because the Student Loan Company is lenient in how it wants repayments to be made. They take a small amount from your wages (if they are over £10,000 pa) every so often. One can of course repay all the amount of loan at any time. However, if you die or reach the age of 65 before your repayments have been completed then the loan is ""forgiven""!

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Nabeil

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Interest is forbidden whether it is determined in the contract or later and regardless of inflation. However, there is a minority of Ulama, though this goes against the resolution of the Islamic Fiqh Academy of the OIC (Organization of Islamic Conference) in Jeddah, who argue that indexation is permissible. The link with inflation makes it indexation.

Accordingly my answer is that such a loan contract is prohibited, but there are people who say it is not, I wouldn't do it and wouldn't like you to do it. I argue that at many times most banks wish to have their interest linked to inflation because it happens that interest rates may go below inflation rates.

For the second question I suggest that you pay it as soon as you can because it is interest based and especially that you are not planning on dying soon, are you?

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

Inflation, Interest, Debts and Loans

Subject: Should My Uncle Pay the Inflation and Pay the Partners?

From: Islam on line

Sent: Tuesday, December 28, 2004 2:27 AM

Name of Questioner riyaz

Question

Dear Scholar, Assalamu Alaykum. One of my uncles had a shop with partners and then it was sold due to loss 40 years back and he didn't pay the share amount then to the partners due to problems. Now he is willing to give that due amount to the partners. My question is should my uncle take inflation into consideration and pay the partners more?

Jazakum Allahu Khairan for your constant help

Yours

My Answer

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi
Ajma'in

Dear Br. Riyaz,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I think leaving a right of others with him for such a long time, 40 years, and you uncle knew that was the partner's right is an action that puts the blame on your uncle. I say YES, your uncle must pay the partner what is due to him plus the inflation difference and may be even plus the profit your uncle made out of using that amount for this long period.

In an authentic Saying the Prophet, pbuh, mentioned, with praise that God saved the person from a sure and definite destruction, the story of a man who employed a laborer and when he was going to pay him the laborer got angry and left refusing to take his money, then the man invested the due wage in buying a sheep and raising it and when the laborer came back after a long time he gave him the whole herd of sheep. This man, the Prophet (pbuh) told, was saved with his two friend from a cave completely closed by a huge rock.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Loan and Inflation

From: sami [mailto:sami_umar@hotmail.com]

Sent: Sunday, August 01, 2004 11:44 PM

Question

In 1997 a person took a certain amount of money to invest in Egypt and then ran away to the US. Recently we were able to locate him and under pressure agreed to give back the money in installments. As the value of the Egyptian pound has devaluated dramatically since then and we could have invested the money ourselves, so are we allowed to get an increase on the original amount or would that be ""Reba"". Please take into consideration that we did not lend him the money but was for investment.

Jazakum Allahu Khairan for your constant help

Yours

My Answer,

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina

Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Sr./Br.

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

If the money is taken for investment, we first need to know what happened to that investment before he ran away to US. If it was lost with no fraud or betrayal of contract, or gross neglect, then the owner of the money is the looser and that person should not be charged any amount and needs not to repay anything, let alone any increment over the principal amount.

Once we determine the actual result of investment, then if there is any money left to the owner and the investment term expires, that person must return the remainder to the owner. If he did not, he was then making a mistake of aggression on the funds held in his hands, and he can be charged for any damage that happened to the owner as a result of this delay but this can only be done within a settlement that must take into consideration the abilities of both parties and their use of funds, the amount of damage including the effect of inflation on the domestic and external price of the Egyptian pound but not to include a presumed potential lost profit or return (for instance rate of interest or rate of distribution of profit in Islamic banks) .

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,
Sincerely,
Dr. Monzer Kahf

Subject: deducting inflation from interest

From: Islam on line

Sent: Tuesday, May 11, 2004 3:01 AM

Name of Questioner Rami Gender Male Age 21-30

Education Graduate

country of Origin Egypt

country of Residence Egypt

Question

Alsalamo Alaykom Wa rahmato Allah. I am working in a usury bank as a cash teller. I must have an account in the bank as per bank procedures, to transfer my salary. I cannot open an account in an Islamic bank because i am working at the same time the Islamic banks are open and i cannot leave my work. I am planning to withdraw the interest and give it to needy people. My Question is :"" May I deduct the inflation rate from the rate of interest the bank is giving me. In this way i will be giving to needy people less than before, so that the value of my money remain the same, because the inflation rate is too high and if i don't accept the interest my money value will decrease by time. To clarify: Instead of giving to needy people each year 10% of my saving balance wich is the rate of interest, i will give them 10% less 2%(the rate of inflation) =8% of my saving balance

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi

Ajma'in

Dear Br. Rami

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

While working in a conventional bank in jobs that do not require you to write a Riba contract (your job is one of the permissible jobs) is not forbidden, working in Islamic bank is certainly much better.

The answer to your question is: NO. You may not deduct the inflation rate from earned interest because this interest is not yours and you have no authority over it from Shari'ah point of view. It is treated as money that has no owner (actually it is still owned by the interest-based bank but was given to you and we do not return it to the bank in order to avoid helping it to make more evil transactions); money that has no owner belongs to Muslim charity (poor and needy, etc.) as the only way to dispose of it. If you keep the money at home would any body compensate you for inflation?

Besides, why are you making it appears as if there are no other solutions? You may open a checking account in your bank and an investment Mudarabah in an Islamic bank and each month transfer the amount of your salary that you do not need for expenses to the Islamic bank. This way you get Halal income that compensate you for inflation that is normally caused by government actions or lack of actions.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf
