

FATAWA INFLATION 2008-2012

Subject: Inflation and Riba

From: Yuyun

Sent: Wednesday, January 07, 2009

Location: Malaysia

Question: is interest a cause of inflation?

Assalamualaikum prof

I'm student from Malaysia. I would like to ask your opinion about the Islamic banking services and practices nowadays. I also wanted to ask your opinion regarding the relation between inflation and Riba. May you tell me more about it? I hope that you can give me the answer as soon as possible.

Thank you prof. for your cooperation.

Salam.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Yuyun

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Islamic banking is doing well; Islamic banks are expanding, growing and increasing in number. Some banks practice, in some of their transactions not all, a few contracts that are controversial such as 'Inah and sale of debts in Malaysia and Tawarruq in Saudi Arabia.
2. There is scientific evidence on any causality relation between interest (Riba) and inflation although it is well known that sometimes one affect the other, back and forth. We cannot make a claim that inflation is caused by Riba or interest is a compensation of inflation. However there is sufficient evidence that Riba may be a cause of the business cycle or at least a reason for its blow up and expansion. The present crisis has a lot to explain that in fact Riba through debt sale (discounting or securitization) was a major element in the domino effect that pulled down many financial giants.
3. I suggest that you should read some textbook on inflation, money and banking to have more background on these matters.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf
