

FATAWA INFLATION 2016

From: Sharafe

Sent: Tuesday, February 09, 2016

Question: Exchange Rate and Loans

As-salamu Alaikum wa Rahmatullah wa Barakatuh Dr. Kahf,

I pray you and yours are excellent.

In giving international loans we face the issue of exchange rates.

In an extreme example, let us say that we (in Canada) lend someone (in America) \$10,000 CDN (and the contract is in Canadian Dollars) and due to exchange rate it is exactly \$10,000 USD, then upon payback, the exchange rate changes, such that the lender must earn \$20,000 USD to pay back the \$10,000 CDN; or the opposite, they earn \$5,000 USD to pay back \$10,000 CDN - in this scenario, the borrower takes all the risk or reward of the exchange rate.

If the funds were loaned in USD, the lender (Iana - or the donors of Iana) would take all the risk or reward of the exchange rate.

The question is: what is the best? Do we place all the risk/reward on the borrower, on Iana, or do we try to find a median (that we somehow try to meet half-way)?

Bismillah. Barak Allah feekum,

Sharafe

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharafe,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is an old ever new issue that has no solution in the final analysis.

Someone has to take the risk! the rule that is approved by a decision of the OIC Fiqh Academy after discussion in two workshops over a period of two or three years is: payment must be in the currency of the contract and the latter must be in the currency actually given. You cannot give USD and say in the contract this is the value of so much gram of gold or C\$. if you give USD you should mention in the contract the same and payment will be the same. Disastrous situations (a currency lost most of its value like Iraqi dinar or Syrian lira) are solved by arbitrations and courts.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Valentino

Location: Iran

Question: High prices in markets?

Sent: February 12, 2016

I saw this cool show called hazrat Umar/Omar series and in the show he said that it is illegal (haram) to sell items with the price too high. Is that true? Like what the malls are doing making things expensive are they going against the fairness of Allah and is it haram? Like does the price

must not be too expensive?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Valentino

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The price must not be high relative to the market. High/low pricing is in Shari'ah considered in relation to other sellers in the market not to cost on producing/acquiring the item. Our Islamic economic system is based on the market and does not accept charging high prices relative to the prevailing market price. Excessive raise in any price relative to market price is called Ghabn and it is Haram and may entail voiding the sale in a court.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Tarek

Sent: Saturday, September 03, 2016

Subject: Inflation indexed loans, can interest be to the amount of inflation?

Jazaka Allah Khair for your answer Dr. Kahf, I appreciate the time you have taken in this.

I have one final question: Can Muslims accept or give out inflation/deflation-indexed loans? For example in Japan where there is slight deflation the monetary amount of the loan would be slightly decreased over the life of the loan, whereas in the US where there is slight inflation the monetary amount would slightly increase over the life of the loan. In both of these cases the *value* of the loan would remain the same (because it is indexed) though the monetary amount would vary slightly over time, to account for price instability. In this way neither debtor nor creditor would lose wealth over time.

Is this within the bounds of Shari'ah?

Jazaka Allah Khair

Tarek

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tarek

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh,

A loan is an act to help a person and it must be returned only in exact amount and exact object. So if you borrow ten eggs of medium size you return 10 eggs medium size, there must be no condition to return 11 if the price of eggs goes down 10%. This is the normal human law and this is strictly the Shari'ah. this means that indexed loans are not permissible. Also indexed debts are not acceptable too. a debt is paid back in same item and same amount, whether in cash or in kind. Inflation is not caused by the borrower why he should bear its consequences?

Besides, please notice that while inflation is a reality, so is deflation their measures are always approximations. All price indices are simply approximation and vary sometimes greatly, one from the other. There is no exact measure for inflation simply because prices do not go up or

down at same proportion and this is exactly the crux of the dilemma of inflation, it hurts some and benefit some depending on what assets they hold and what incomes they receive.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

On 8/31/16, Monzer Kahf <monzer@kahf.com> wrote:

From: Tarek

Sent: Monday, August 29, 2016

Salaam Alaykum Dr. Kahf,

I wanted to ask you a question from the night of your lecture at the Kitchener Masjid earlier this month. You mentioned that inflation has always been with us, and that economists even say that a small amount of it is healthy. Yet inflation - especially when it is government orchestrated - erodes the wealth of people, especially the savings of the elderly who are in retirement. Can banks give Muslims a nominal amount of 'interest' up to the inflation rate (CPI) so that their wealth is maintained and not eroded? Would this be considered Riba? Has this question ever been discussed by scholars?

Jazaka Allah Khair

Tarek

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tarek

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The answer is NO, no increment can be given, according to Shari'ah, on a loan. also this has been discussed hundreds of times.

As you said, inflation is mostly caused by governments, then why the debtor should pay for it? And any such payment by banks is Riba not inflation compensation. Government should and may compensate for inflation but not the debtor. Besides the old people on retirement have other options such as real estates, shares, not only loans to banks.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf
