

ISLAMIC FINANCIAL SYSTEM: A SYSTEM TO DEFEAT INFLATION

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Abstract

Purpose: The aim of this paper is to highlights the potential of Islamic Financial System to give inflation free economy.

Design/ Approach/Methodology: The paper contended that Islamic Financial System has ability for socio economic development of financial stake holders and to put inflation at zero level.

Findings: Islamic Financial System offers various ethical monetary and fiscal instruments that can be advances and adapted for the financing. Islamic doctrine focuses on the wealth distribution (Zukah etc), which increases aggregate demand. It also encourage for participation in business activities through saving and investment. In short, IFS money creation is backed by increase in production that leads to no inflation in society.

Research Limitation / Implication: The paper is only conceptual and does not aim to empirically examine the issues or theories. However the paper will be useful to develop hypotheses for future research.

Practical Implication: Islamic Financial System will be of the interest of economist/researchers/financial institutions. The paper will also highlight the concepts of Islamic Financial System to practitioner to understand the fiscal and monetary tool of Islamic Financial System.

Originality / Value: Islamic Financial System is based on moral and ethical attributes device by the Quran and Sunnah. Fiscal & Monetary Tool of Islamic Financial System requires taqwa and honesty to implement for well being of humanity to establish an inflation free economy.

Key Words: Islam, Finance, Fiscal policy, Monetary Policy, Zukah,

Paper Type: Conceptual

1. INTRODUCTION

Inflation is one of the scourges of mankind as inflationary period increases unemployment, reduces return on investment and purchase power (Sprinkel, 1971), increases hoarding habit, slow down the business activity (Polleit, 2008) and increases social unrest (Zoellick, 2011). The decreasing purchasing power of money has been one of the most striking issues not only for the economists but also for the savers, lenders and consumers. As inflation poses a serious challenges to society, therefore policy maker try to curtail inflation as low as possible. Since the Second World Ware – II, economist fail to counter the inflation.