
Fiscal and Monetary Policy

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**IN THE NAME OF GOD
MOST COMPASSIONATE
MOST MERCIFUL**

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Economic policy of the Islamic state

Fiscal policy

- **Definition**
- **Objectives**
- **Tools**
- **Shari'ah constraints**

Income policy

- **Definition**
- **Objectives**
- **Tools**
- **Shari'ah constraints**

Monetary policy

- **Definition**
- **Objectives**
- **Tools**
- **Shari'ah constraints**

Development policy

- **Definition**
- **Objectives**
- **Tools**
- **Shari'ah constraints**

Fiscal policy in Islamic economics

■ Definition

It is the set of laws, regulations, instructions, procedures and processes related to structuring and collecting public revenues, determining and spending public expenditures, public deficit/surplus and its management and the public budget in general.

■ Objectives

- 1. Affecting employment toward full employment**
- 2. Affecting development by attempting to increase efficiency of available resources and increasing availability of resources**
- 3. Affecting income distribution toward improving the income of the poor and providing social security**
- 4. Improving stability of economic activities and avoiding recessions**
- 5. Providing financial resources to finance the economic and non-economic activities of the state**

Tools of Fiscal Policy in a Shari'ah-Compliant economy:

- Changes in taxes**
- Changes in expenditures**
- Changes in timing and mode of collection/distribution of Zakah**
- Changes in Public debts**

Shari'ah rules of revenues policy:

1. Pricing of products of public sector,
2. Social and economic justice,
3. Commitment to guaranteeing basic needs for every body and to producing public services such as security,
4. Borrowing should be non-interest-based with clear ability to repay,
5. Taxes are last resort and based on need for revenues,
6. Zakah is unchangeable: Rates, Zakatable items and deserving recipients/destinations

Shari'ah rules of expenditures **policy:**

- Availability of non-restricted revenues,
- No privileges to a class or group (except the poor),
- No extravagance

Shari'ah rules of public debt policy:

- * Justice especially against inflation,
- * No Riba,
- * Exhausting other means of financing

Monetary policy in Islamic economics

■ Definition

It is the set of laws, regulations, instructions, procedures and processes related to the management of the quantity of money and credit in the economy.

■ Objectives

- 1. Essentially avoiding and fighting inflation**
- 2. Maintaining financial stability in the economy**
- 3. Partially, Affecting employment and development**

■ Tools of Monetary Policy:

- 1 - Issuing currency to the government,
- 2 - Open market operations,
- 3 - Changes in the rate of mark up in Murabahah,
- 4 - Changes in financing rate in Murabahah,
- 5 - Ceilings on Profit in sharing finance,
- 6 - in the Central bank sharing financing to the banking system and its rate of profit distribution
- 7 - Changes in the rate of rent in Sukuk al Ijarah
- 8 - Changes in government deposits in commercial banks
- 9 –Changes is general and sectoral credit ceilings

Shari'ah rules of Monetary Policy:

- Justice: no breaking of the price of money; stability of value of money
- No deficit financing;
- No disfavours to the poor
- No interest transactions

