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ZAKAT AS AN INSTRUMENT OF ISLAMIC ECONOMIC DEVELOPMENT AND A BARRIER TO INFLATION

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ABSTRACT

This article aims to explain the importance of Zakat, its role in the economic system, its impact on individuals, and its relationship to the concepts of saving and investment behaviour, which ultimately affect the financial stability of society and the country, particularly in the context of ongoing Inflation. Zakat is not only a means of protection for the poor and needy, but also a means of achieving social solidarity and bridging the gap between social classes. This equitable distribution of wealth enhances social stability and mitigates the impact of Inflation on the most vulnerable groups. In writing this article, we conducted a literature review by collecting and analyzing books and articles using a qualitative approach. The results of the analysis are presented descriptively. For centuries, Zakat has played a vital role in maintaining economic stability. When people pay Zakat, a portion of their money is returned to society and distributed to the poor and needy. This increases the purchasing power of these groups, thus maintaining price stability. Zakat funds can be used to support small and medium-sized enterprises. If someone opens a new shop or expands an existing business, this increases local production and creates new jobs. When local production is sufficient, dependence on imports, which often leads to price increases, will decrease, allowing Inflation to be controlled by increasing production factors and reducing the use of imported products. People who pay Zakat will continue to be motivated, as paying Zakat continuously will prevent their savings from decreasing. They will also continue to develop their assets, enabling them to pay Zakat in larger amounts.

Keywords *: Economic, Inflation, Zakat*

I. INTRODUCTION

The economic aspect usually receives attention, care, and reform from everyone, due to its significant impact on all aspects of life. The quality of its management, investment, and spending is among the reasons for the success and stability of individuals and nations. There are economic phenomena that require treatment and prevention of their adverse effects before they occur, including what is known as monetary Inflation. Therefore, this is a brief, illustrative overview of the subject, along with an explanation of the treatment methods mentioned in Islamic jurisprudence.

First: The Concept of Monetary Inflation: Economists have many definitions of this complex term, and it is almost unmistakable due to its frequent use. It can be explained as: an increase in the general price level.[1] It is a sudden and continuous rise in prices over a period of time, affecting most goods and services.

Second: Means of Treating Monetary Inflation in Islamic Jurisprudence: Sharia provides several remedies for this phenomenon. Some of these are practices prohibited by Sharia, some are obligations imposed on Muslims, such as Zakat if its conditions are met, and some are powers granted to rulers to prevent corruption.

Implementing the Zakat obligation: Zakat, while being an act of worship and an obligation, has significant implications and impacts on the reality of societies if fully and correctly implemented. The basis of Inflation is caused by an excess of demand over supply, whereby the amount of money circulating within a society exceeds the amount of goods and services offered. This causes an imbalance in supply and demand, leading to an increase in the general price level. Implementing Zakat has a practical impact on combating Inflation through the following.

Providing cash flows: The regular collection of Zakat and the flow of its proceeds throughout the year provide the necessary cash for circulation in the markets, preventing monetary authorities from resorting to issuing more money. Controlling aggregate demand: Implementing the zakat obligation ensures that sufficient funds are available for all members of society, as this encourages society as a whole to purchase basic goods. This can prevent an increase in demand for luxury consumption. Achieving optimal utilization of production capacities: Idle capacities in society constitute one of the inflationary pressures, which increases in severity in the case of Inflation resulting from rising costs. Zakat is the optimal treatment for eliminating any idle production capacities, because it proposes two solutions for using the capital that is actually or estimated to grow: either it is employed in various investment aspects, or it is decreased by a fixed annual instalment, which is 2.5%, which is the value of the Zakat due on it.

The Impact of Inflation on the Economy

Inflation is an economic and social disease that wreaks havoc on the national Economy, causing adverse imbalances. This disease has spread to a large number of countries around the world, and inflationary waves intensified, especially in the 1970s, until they became a global phenomenon. Economic minds have turned to this phenomenon to study it, seeking solutions to halt its spread and mitigate its harmful effects.

Monetary Inflation is an increase in the means of purchase available to the public without a corresponding increase in production or traded goods, or an imbalance between people's need for means of exchange and the quantity of these means at a given time. This means that an increase in the amount of money results in a decline in its purchasing power, leading to a rise in the prices of goods and services. Inflation is linked to the quantity of money on the one hand and to its functions on the other. Suppose the means of purchase (money) increase while the amount and production of goods remain the same. In that case, prices tend to rise with the collapse of the purchasing power of money (المصلح خالد بن عبد الله بن محمد, 2006).

This rise in prices, described as monetary Inflation, is a continuous increase because the nature of Inflation is a cumulative increase in prices. This results in an increase in demand for the consumption of goods and services, or for investment in them, that exceeds the total supply capacity. As a result, prices begin to rise, causing Inflation in the Economy (Siebold, 2019).

The causes of Inflation are numerous. Some are due to natural causes, such as low rainfall, natural disasters, and water scarcity, which lead to a shortage of basic agricultural materials. Heavy rainfall, which leads to floods and torrential rains, depletes agricultural resources the raw materials essential for life, whether for farming, industry, or the Economy. This, in turn, leads to increased demand, coupled with a decrease in supply (Inflation). Some are unnatural and human-caused, such as spending economic output without participating in production, spending it on things that are not beneficial to society, or engaging in the destruction of fellow human beings. These include wars and military buildups, economic blockades imposed by some countries against others, increasing interest rates and taxes, and the lack of adequate economic studies due to the backwardness of economic systems, as well as financial markets (stock exchanges).

II. LITERATURE REVIEW

In writing this article, we reviewed the book entitled The Impact of Inflation compiled by Curwen and Peter J, which discusses the emergence of Inflation by various factors in 1971, which continued without any serious attention to Inflation, which had previously, in the 1950s, hampered the pace of global economic development, which had an impact on developing countries. (Curwen, 1978) In an article, the role of Zakat in suppressing the rate of Inflation in a region was also discussed, as seen in the article written by Khelkhal Maroua, entitled "Zakat and Inflation: A Fiqh and Economic Perspective." This discussion addressed several impacts caused by Inflation and aspects that can be discussed through Zakat to improve the welfare of society (Maroua, 2025). Additionally, we conducted a review of the book "Zakat and Poverty Alleviation," compiled by Yusop et al., which discusses ways to reduce poverty in society, thereby indirectly supporting the country's Economy. The discussion we conducted was an analysis of the impact of Inflation on the currency and the role of Zakat in anticipating and mitigating its effects by increasing the production of goods and expanding services supported by Zakat.

III. METHODOLOGY

In writing this article, we conducted a literature review comprising books, articles in journals, and online scientific columns. After reviewing these sources using a qualitative approach, we present the results of a descriptive analysis of the correlation between zakat redistribution and underprivileged families. The explanation of Zakat's impact on welfare involves mechanisms of wealth redistribution, increased income, fulfilment of basic needs, and strengthening social capital. Zakat has a positive impact through the distribution of funds to vulnerable groups who can meet basic needs, as well as through productive zakat programs that empower those entitled to receive Zakat (mustahik) to increase their income sustainably. Furthermore, Zakat also fosters solidarity and empathy within the community, thereby contributing to the collective well-being of the community.

IV. RESULTS AND DISCUSSION

Inflation has profound economic and social impacts, most notably the erosion of individuals' purchasing power, which makes essential goods and services more expensive and harms real income. It also leads to economic uncertainty, negatively impacting savings and investment, and encouraging businesses to raise prices and reduce production. It also prompts central banks to raise interest rates, which can slow economic growth and lead to unrest.

Several different reasons cause economic Inflation, often surprising to many people. These include: Increased demand for a product or decreased production can lead to a significant market gap, contributing substantially to price increases. Increased production costs for various goods lead to higher costs for the final product. Many producers of goods raise prices to avoid rising wages and salaries for workers, which contributes to higher inflation rates. Natural disasters reduce production output, which in turn causes Inflation. An increase in the money supply and the amount of money people spend, which leads to increased spending, are primary causes of economic Inflation (Thelin, 2004). Significant increases in global commodity prices, including food, fuel, and other essential products, have a substantial impact on countries that import these products. Increased tax rates: Many governments impose value-added taxes, which significantly increase the prices of goods and services (Gatti et al., 2023).

Types of Economic Inflation

There are several different types of economic Inflation, including the following:(Rab, 2004). First: Negative Inflation. This is a type of economic Inflation, also known as moderate Inflation. It can be defined as a mild increase in prices over several years, estimated at 10% per year. It is considered one of the best types of Inflation, as it contributes significantly to many investors' predictions of minor price increases. Second: Intrinsic Inflation. This is also called normal Inflation, and it occurs periodically. The inflation rate ranges from 3% to 10%. However, it has many adverse effects, as it leads to an expected increase in demand for products, resulting in a rapid rise in prices.

Third: Imported Inflation. This refers to Inflation resulting from increased costs (Inflation) and an increase in the prices of manufactured raw materials and some imported goods, which reduces the purchasing power of the importing country's currency (Nurul Anisa et al., 2024).

Fourth: Hyperinflation. A significant increase in the annual price level, potentially reaching more than 1000%, is likely to cause numerous major economic problems that many governments and authorities are unable to address. This requires innumerable decisions and the imposition of financial oversight.

Effects of Economic Inflation. Economic Inflation, in its various forms, significantly impacts individuals' standard of living in all aspects. The most important of these effects are: Inflation is one of the most significant economic problems facing many countries, both developed and developing. Inflation is defined as a continuous increase in the prices of goods and services, which reduces the value of money.

Decrease in purchasing power: This affects the volume of investment and savings. Despite the abundance of money, it has no clear value, requiring investors to invest more. Harm to company revenues: This occurs when consumers are unwilling to purchase various goods in exchange for some of the services they provide. Furthermore, the decline in purchasing power prevents companies from obtaining the revenues they need to cover all their operations. Prices are expected to rise, while workers' wages are expected to decrease. Economic weakness: When Inflation occurs, a state called "economic weakness" occurs due to the lack of strong demand for goods and services, due to the expectation that prices will not rise significantly. This results in a significant economic recession.

Effects of Inflation

Income redistribution, reduced savings and investment, and rising prices for people experiencing poverty. Continued Inflation increases the preference for holding goods and real estate over cash. The velocity of money rises significantly as individuals become less willing to hold it. A deficit in the balance of payments occurs when export prices rise or exports decline, resulting in a corresponding decline in imports (Bopp, 2012). Loss of confidence in the local currency, as individuals prefer to hold hard currencies because their price is more stable. A significant decrease in the value of the currency leads to a rush to buy hard currency, which in turn contributes to the further deterioration in the local currency's value. Inflation is detrimental to economic development from the perspective of economic development, as it encourages consumption and, consequently, unproductive or speculative investment. The difficulty of implementing projects is often due to the challenge of estimating price increases during the completion period. Therefore, planning becomes difficult. The decline in the value of money leads to gains for debtors and losses for creditors, which in turn erodes the spirit of cooperation among members of society, shifting relationships from moral and spiritual ones to material ones (Curwen, 1978).

The Emergence of Speculation in the Black Market.

The quality of some goods decreases due to the ease of marketing poor-quality goods in light of high prices (Medani, 2021). Islam is not isolated from these problems. Instead, it takes a positive stance toward them through Zakat. This financial obligation is most effective in solving economic crises and financial difficulties. It is a means by which many economic and development goals can be achieved in Muslim society, such as combating and reducing poverty, redistributing income, stimulating the production cycle toward growth and prosperity, promoting investment, mitigating the effects of Inflation, and addressing other diverse economic aspects(Siregar & Abdul Majid, 2022).

Zakat contributes to reducing Inflation by addressing its causes through supporting growing productive sectors. Increased demand for a commodity product leads to increased investment in that sector, resulting in higher demand for production factors, which in turn leads to higher prices for these factors. This price increase is then passed on to products in other sectors that lack sufficient production factors to produce the required output. Zakat mitigates this type of Inflation, as low-efficiency industries and institutions are under pressure to reduce their resources to reduce their zakat dues (Subekti et al., 2022). This frees up productive resources for other growing sectors at lower prices than those in traditional economies. Zakat also helps combat wage and price inflation, as high wages are considered a primary cause of Inflation. The rising cost of human labour is offset by producers raising prices, which places a new burden on incomes. Thus, wage and price increases continue. However, Islamic societies do not require traditional policies to address this problem, as the zakat obligation provides support to those who are unable to work and helps supplement their needs. Meanwhile, those who can work are not provided with any financial support, forcing them to work harder(Iskandar et al., 2019).

Zakat also contributes to achieving optimal utilization of production capacities. Zakat is the ideal remedy for eliminating idle and hoarded productive capacities. It offers two options for utilizing growing capital, both "actually and in theory," either by investing it in various investment opportunities or by reducing it annually at a fixed rate, which corresponds to the zakat value due. Zakat is an expense and a burden on idle capital, while this burden is reduced on working capital. Zakat on working capital is deducted from its returns and profits, while all expenses are deducted. This helps mitigate the accumulated inflationary pressure resulting from the idling of a portion of productive capital (Rab, 2004).

Zakat also reduces the burden of capital: the cost resulting from calculating the interest rate on borrowed funds is one of the most important causes of rising production costs. Therefore, fluctuations in interest rates affect the price of the product, adding a new element to the inflationary factors (Dempsey, 1951).

Zakat also reduces Inflation after it occurs. The government's monetary policy, which includes the payment of Zakat in kind, affects the amount of money in the Economy and directly impacts the fight against Inflation. Furthermore, the collection and distribution of Zakat on crops, fruits, and livestock in kind significantly contributes to preserving the purchasing power of money without deterioration. It also benefits the zakat recipient (Rohman & Al-Shaghdari, 2025).

This is because paying Zakat in cash to those entitled to it increases their purchasing power, especially if it is paid during a specific period such as Ramadan. This leads to an increase in demand for consumer goods and services, resulting in a rise in the general price level, which in turn means an increase in the rate of monetary Inflation. The potential inflationary impact of paying Zakat in cash on time can be mitigated by having wealth owners pay their Zakat in money to the Imam or his representative, such as a state agency. These agencies will then disburse it gradually to those entitled to it, thus absolving the owner of the wealth of their responsibility, as the Imam or his representative acts as the zakat recipient in collecting it (أحمد أبو طه, 2012).

Zakat also reduces monetary Inflation through the policy of advancing or delaying zakat collection, as one of the financial policies aimed at influencing public demand, or the demand of specific groups, thus affecting inflation rates in the desired direction. This is linked to the public interest of the nation, whereby zakat collection is delayed if the desire is to keep money in people's hands and encourage public demand (for consumption and investment). In contrast, zakat collection is accelerated when the desire is to reduce the amount of cash in people's hands. The Prophet, may God bless him and grant him peace, collected Zakat from his uncle for two years. Umar, R.A., delayed the collection of Zakat in the Hijaz during the year of the famine, ordering that it be collected over a period of two years.

The acceleration and delay can occur from one year to the next, and they can also occur during the same year. The government can accelerate or delay the collection of Zakat on each type of zakatable wealth, or on all of them together, according to the short-term interest in bringing about the desired changes in general demand, or the demand of specific groups and segments of the population (the owners of wealth for which Zakat is delayed or advanced) (التلاوي & الباوندي, 2025).

It also limits monetary Inflation by directing zakat holders to spend their Zakat on categories for which the payment of Zakat does not lead to an increase in consumer spending, such as expenditures in the way of God and debt repayment. Ibn al-Arabi said: "A single category, in terms of expenditure and locality, is like eight categories".

Thus, Zakat plays an effective role in limiting the phenomenon of monetary Inflation, in addition to other procedures and measures that would comprehensively address it. Zakat and Mitigating Demand-Based Inflation : Inflation in this case is due to an imbalance between aggregate demand and aggregate supply. This occurs when the flow of money available within society exceeds the value of the goods offered, which drives up prices. Wages also rise especially in cases of full employment (full employment means a state of no unemployment) and monetary income rises without an increase in material output (Al-Hamed, 2024).

Implementing the obligation of Zakat has an effect in curbing inflationary demand through (Ahmad Mohammad Alsaad, Shatha Musa Al- Rawabdeh, 2021):

1. Providing cash flows: The regular flow of Zakat proceeds at the beginning of each lunar year provides the necessary cash for circulation without the need for monetary authorities to resort to currency issuance.
2. Regulating aggregate demand: The excess of aggregate demand over aggregate supply is a characteristic inherent in capitalist economies, where the goal of the economic system is to achieve the highest levels of well-being. This is linked to increased personal and overall satisfaction for members of society. This expansion in consumption leads to an increase in total spending within society (الصاوى, 2022).

In the Islamic Economy, the implementation of zakat legislation ensures that all members of society have access to a sufficient standard of living. The requirement of a minimum threshold for zakat funds demonstrates this. This requirement relates to basic needs not luxury needs that achieve the objectives of Islamic law. It also ensures that zakat expenditures are sufficient without reaching levels of luxury consumption.

Furthermore, the marginal propensity to consume (a consumption ratio) for most zakat recipients tends to decline with increasing income, reaching zero when the consumption function enters the zone of extravagance and wastefulness, which are prohibited by Islamic law. In an Islamic economy, the average propensity to consume tends to decline over the long term, thus invalidating the argument that Muslims might spend all their income and wealth to avoid paying Zakat. This objection cannot be applied to commercial, industrial, and service goods, as it is unreasonable for their owners to squander all their profits and capital to avoid paying Zakat. Nor does it apply to consumer spending, as the consumption basket for Muslims is smaller than that for consumers in a secular economy. Furthermore, there are limits on the consumption of the contents of this basket, thereby avoiding extravagance and wastefulness.

Increasing Supply Through the Developmental Role of Zakat (القرعان & الحكيم, 2015): The goal of distributing Zakat is to enrich its recipients. This is achieved not only by ensuring that those entitled to it meet their needs for goods and services, but also by ensuring their current and future sufficiency through the provision of productive tools and capital appropriate to their natural talents and acquired abilities. This means that not all distributed income is directed toward consumer demand; instead, a significant portion is directed toward investment, especially in the long term.

While the dynamic impact of Zakat in the Islamic Economy leads to an increased propensity to consume in the short term, it also leads to an increased propensity to save and, consequently, to invest in the long term. Zakat in kind reduces unnecessary spending of money (2015 ,الحكيم & القرعان): Furthermore, the collection and distribution of Zakat on crops, fruits, and livestock in kind significantly contributes to preserving money at its purchasing value without deterioration. This is also facilitated by the permissibility of paying Zakat in kind if it benefits the recipient.

Controlling consumption expectations in favour of investment spending: On the other hand, the faithful application of Zakat has a far-reaching impact on the element of expectations, which the Swedish school of thought prioritizes. These expectations help mitigate the imbalance between aggregate demand and aggregate supply by aligning savings plans with investment plans. Zakat plays a crucial role in transforming hoarded savings into investment, avoiding their removal from capital and exposure to zakat erosion, and instead removing them from investment returns (profits), thereby significantly improving the expectations of capital owners.

The implementation of Zakat increases the scope and diversity of investment activity. Private investment plays a significant role in providing the basic needs of all members of society as they grow, and in continuing investment spending as long as the marginal rate of return (MRR) is 2.5% (one-quarter of a tenth), which is the minimum zakat rate imposed annually on actual or estimated growing funds .

Directing funds to ongoing investment (increasing the supply side): Also, imposing Zakat as a mandatory expense on actual or estimated growing capital motivates capital owners to continue investing, even if the expected marginal rate of return is less than the zakat rate imposed on raising funds (2.5%), as long as this rate is greater than zero. This is because the possible choice for investors in this case is between investing their money or holding it, rather than choosing between multiple investments. Since hoarding is not an option for Muslims, Muslims should continue investing rather than not investing at all because this reduces their losses due to Zakat to less than the total Zakat rate.

V. CONCLUSION AND RECOMMENDATION

The Economy is a common focus of attention, care, and reform among people due to its significant impact on all aspects of life. The quality of management, investment, and spending is among the key factors in the success and stability of individuals and nations. There are economic phenomena that require treatment and prevention of their adverse effects before they occur, including what is known as monetary Inflation. Therefore, this is a concise and illustrative overview of the subject, accompanied by an explanation of the treatment methods mentioned in Islamic jurisprudence.

First: The Concept of Monetary Inflation: Economists have many definitions of this complex term, and it is almost unmistakable due to its frequent use. It can be explained as: an increase in the general price level. It is a sudden and sustained increase in prices over a period of time, affecting most goods and services.

Second: Means of Treating Monetary Inflation in Islamic Jurisprudence: Sharia provides several remedies for this phenomenon. Some of these are practices prohibited by Sharia, some are obligations imposed on Muslims, such as Zakat if its conditions are met, and some are powers granted to rulers to prevent corruption.

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• Providing cash flows: Regular collection of Zakat and the flow of its proceeds over the course of a year provides the necessary cash for circulation in the markets, preventing monetary authorities from resorting to issuing more money.

• Controlling aggregate demand: Implementing the zakat obligation ensures that sufficient funds are available for all members of society, as this encourages society as a whole to seek out basic goods. This can help prevent an increase in demand for luxury consumption.

• Achieving optimal operation of production capacities: Idle capacities in society constitute one of the inflationary pressures, the severity of which increases in the case of Inflation resulting from rising costs. Zakat is the optimal treatment for eliminating any idle production capacities, because it proposes two solutions for using the capital that is actually or estimated to grow: either it is operated in various investment aspects, or it is decreased by a fixed annual instalment, which is 2.5%, which is the value of the Zakat due on it.

Prohibition of usury: The harmful effects of usury on the Economy are numerous, and its effects do not appear immediately, but rather gradually. Among the harms caused by dealing with usury is monetary Inflation. This is because the interest imposed by commercial banks on the capital borrowed by investors and business owners raises the cost of production, prompting them to increase the prices of their products and goods to compensate for the increased cost, which consumers bear. This leads to higher prices and demands for wage increases. Furthermore, the high rate of usurious interest imposed on loans discourages investors from establishing productive projects that bring benefit and prosperity to the national Economy. As an alternative to usury, Islamic economics proposes participation in investment projects, where both parties the Islamic bank and the client share profits and losses, thereby reducing production costs. Prohibition of Monopoly: A monopoly refers to the practice of withholding goods or services that harm people with the intention of raising prices. Any monopoly that causes harm to people is prohibited. It is reported in Sahih Muslim that the Messenger of God, may God bless him and grant him peace, said: "Only a sinner monopolises."Among the forms of monopoly are merchants agreeing not to sell except at a certain price, or buying goods until they are nearly exhausted, with the intention of raising their prices later and then reselling them.

There is no doubt that a monopoly has serious consequences for the Economy, including, for example, rising prices and limiting production, which leads to Inflation. It also disrupts the law of supply and demand by restricting the supply of goods and services in the market, which leads to rising prices and the erosion of freedom of trade and industry due to the presence of groups controlling commercial and industrial markets. Umar ibn al-Khattab, the Caliph of the Muslims, would enter markets and monitor merchant transactions and the prices of goods and products, prohibiting any action that might lead to a monopoly.

Some jurists have stated that whoever hoards food or other goods from the people until they are in dire need, the ruler will force him to sell them at the current price. The permissibility of setting prices to prevent the harm of monetary Inflation: Pricing means that the ruler or his representative sets a price for the people and forces them to trade accordingly. The basic principle regarding pricing is that it is impermissible because trade can only take place through mutual consent. However, some jurists have permitted pricing for public benefit, stating that it is permissible for the ruler to set prices for goods and products if they believe it will promote public interest and prevent corruption that might harm the people. Ibn al-Qayyim, may God have mercy on him, said: "The gist of the matter is that if the people's interests cannot be served except by setting prices, then they should set prices for them, neither excessive nor excessive." The goal is to protect the interests of the people and establish justice; the ruler determines these interests after consulting scholars and those with relevant experience.

Since a continuous rise in prices characterizes monetary Inflation, it was necessary to intervene to control prices and prevent them from increasing further, thereby halting the upward movement of monetary Inflation. Applying pricing was one of the proposed therapeutic methods to mitigate inflationary pressures. Thus, applying pricing to treat monetary Inflation will achieve two benefits: The first is curbing the rise in prices of goods and services for which demand has not increased, or whose production costs have not increased, thereby protecting buyers from the upward trend in prices pursued by the owners of goods and services.

The second is encouraging people to save and reduce their consumption. In inflationary conditions and rising prices, demand for goods and services increases as consumers seek to avoid purchasing them at higher prices in the future. This approach only exacerbates the situation, and monetary Inflation continues to grow. Through these remedies for the problem of Inflation, a picture of the beauties of the Shari'a is revealed, revealing its wisdom and benefits. The rulings are never devoid of bringing benefits to people and warding off harm from them. People vary in their ability to achieve these benefits. The basic principle is that a Muslim obeys God's commands even if some of these rulings are not clear to him.

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