

Zakat and inflation: A fiqh and economic perspective

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Abstract---This paper examines the relationship between zakat, one of the fundamental pillars of Islam, and inflation, a key economic challenge in contemporary societies. From a fiqh perspective, the four Sunni schools of jurisprudence—Maliki, Shafi'i, Hanafi, and Hanbali—developed comprehensive frameworks for zakat, emphasizing justice, redistribution of wealth, and protection of public welfare. From an economic standpoint, zakat functions as an instrument that redistributes income, discourages hoarding, and promotes productive investment, thereby contributing to economic stability and mitigating inflationary pressures. Through a multidisciplinary approach combining Islamic jurisprudence and economic theory, this study argues that zakat, when institutionalized and applied in accordance with Sharia objectives, provides a sustainable framework for addressing inflation while preserving social justice.

Keywords---zakat, inflation, fiqh, Islamic economics, redistribution, Maqasid Al-Shariah.

1. Introduction:

Inflation represents one of the most pressing economic challenges of the modern era. Defined as a sustained increase in the general price level of goods and services, inflation erodes purchasing power, destabilizes markets, and disproportionately harms vulnerable groups. In Muslim societies, addressing inflation is not merely a technical economic issue but also a moral and religious imperative, since Islam emphasizes distributive justice and the protection of the poor (al-fuqara' wa al-masakin).

Zakat, as the third pillar of Islam, plays a crucial role in shaping both spiritual life and economic order. It is simultaneously an act of worship (ibadah) and a socio-economic policy tool. While classical jurists established the doctrinal foundations of zakat in terms of its rates, categories, and distribution, contemporary scholars and economists are increasingly interested in how zakat can address modern challenges such as inflation, unemployment, and poverty (Kahf, 1997; Qaradawi, 1989).

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This paper contributes to the existing scholarship by integrating classical fiqh discourse with contemporary economic analysis. Previous studies have tended to examine zakat either from a purely jurisprudential perspective or from a purely economic perspective. By contrast, this study offers a unique synthesis, demonstrating zakat's dual capacity as both a religious obligation rooted in Sharia and an economic policy instrument capable of addressing inflationary pressures. This integrative approach provides fresh insights into the role of zakat in promoting justice and stability in modern economies.

2. Literature Review:

2.1 Fiqh Scholarship on Zakat:

Classical Islamic jurisprudence provides a detailed framework for zakat, covering its conditions, nisab (threshold), rates, and categories of beneficiaries as outlined in Qur'an 9:60. The Maliki, Shafi'i, Hanafi, and Hanbali schools differed in technical details but shared a common emphasis on justice and social solidarity. For example, Imam Malik (d. 795) in *al-Muwatta'* emphasized the circulation of wealth to prevent concentration among the rich. Imam al-Shafi'i (d. 820) in *al-Umm* insisted on precise adherence to nisab and zakat rates, while Hanafi jurists such as al-Marghinani (d. 1197) in *al-Hidayah* provided pragmatic rulings on zakat of currencies and trade goods. Hanbali jurists, represented by Ibn Qudamah (d. 1223) in *al-Mughni*, highlighted the role of zakat in strengthening community cohesion.

Modern fiqh scholarship has extended these discussions to address inflation and currency devaluation. Yusuf al-Qaradawi (1989), in his seminal work *Fiqh al-Zakat*, argued that zakat should be assessed in ways that preserve its real value, thus protecting both payers and recipients from the negative effects of inflation.

2.2 Economic Scholarship on Zakat and Inflation:

In economics, zakat is studied as a fiscal tool with redistributive and stabilizing functions. Monzer Kahf (1997) analyzed zakat as an alternative to taxation that enhances equity and reduces inequality. Chapra (1993) highlighted zakat's role in fostering economic development by channeling wealth to productive sectors. More recent studies (e.g., Hasan, 2015; Shirazi, 2014) have examined the institutionalization of zakat in countries like Malaysia and Saudi Arabia, noting its potential impact on poverty reduction and monetary stability.

Inflation-specific research emphasizes zakat's role in addressing demand-pull inflation by enhancing consumption among the poor, while also reducing speculative hoarding, which is often inflationary. Additionally, zakat collection and redistribution may increase aggregate supply when invested in productive activities, thereby countering cost-push inflation.

2.3 Gaps in the Literature:

While substantial literature exists on zakat's spiritual and social dimensions, fewer studies systematically integrate fiqh insights with economic theories of inflation. Most works address either jurisprudential rulings or economic effects separately. This paper seeks to fill this gap by providing a holistic perspective that unites classical fiqh discourse with modern economic analysis.

3. The Fiqh Perspective on Zakat:

3.1 The Maliki School:

The Maliki school views zakat through the lens of *maqasid al-shari'ah* (objectives of Sharia), particularly the protection of wealth (*hifz al-mal*) and the preservation of social justice. Imam Malik in *al-Muwatta'* emphasized that zakat prevents wealth from becoming concentrated in the hands of the rich (Qur'an 59:7). Malikis also discussed the impact of changing currency values. For instance, al-Qarafi (d. 1285) argued that justice requires considering the *real value* of money in zakat assessments, especially when inflation or devaluation undermines purchasing power. This demonstrates an early awareness of economic variables influencing the application of zakat.

3.2 The Shafi'i School:

The Shafi'i school, rooted in Imam al-Shafi'i's *al-Umm*, stresses textual fidelity, requiring zakat to be levied strictly at the prescribed nisab and rates. However, later Shafi'i jurists, such as al-Nawawi (d. 1277), recognized the principle of *maslahah mursalah* (public interest), which allowed adaptation in exceptional contexts. In modern times, Shafi'i scholars have argued that inflation justifies assessing zakat in real terms rather than nominal figures, to preserve equity for beneficiaries. Thus, although the Shafi'i school is known for its formalism, it also contains mechanisms for adapting to economic realities when social welfare is at stake.

3.3 The Hanafi School:

The Hanafi school is often regarded as the most pragmatic regarding financial matters. They defined zakat as due only on wealth capable of growth (*namā*). This principle enabled them to include trade goods and currencies in zakat obligations, as explained by al-Marghinani in *al-Hidayah*. Importantly, Hanafis addressed cases of currency debasement and devaluation, recognizing that the *qimah* (value) of money must be considered. Abu Hanifa himself allowed flexibility in zakat calculation when monetary units lost their intrinsic metallic value. This fiqh tradition provides strong precedent for addressing modern inflation: zakat should reflect *real economic value* rather than nominal figures.

3.4 The Hanbali School:

Hanbali scholars, including Ibn Qudamah in *al-Mughni*, underlined that zakat is both an act of worship and a public duty aimed at relieving poverty and ensuring cohesion. They emphasized that neglecting zakat undermines the foundations of society. Although the Hanbali school is known for strict adherence to scriptural sources, they also embraced the principle of *maslahah* when public welfare was at risk. Modern Hanbali scholars, particularly those in Saudi Arabia, have supported recalibrating zakat in contexts of inflation or currency fluctuation, consistent with the higher objectives of Sharia.

3.5 Comparative Fiqh Insights:

Across the four Sunni schools, certain themes converge:

1. **Zakat as Redistribution:** All schools stress that zakat ensures circulation of wealth, preventing concentration.
2. **Consideration of Value:** Hanafis and Malikis, in particular, developed mechanisms to account for changes in the value of money, which directly relates to the modern problem of inflation.
3. **Maslahah as a Principle:** Shafi'i and Hanbali jurists accepted adjustments in zakat when public interest required it, providing a foundation for contemporary reinterpretations.
4. **Integration with Economic Realities:** The jurisprudential flexibility of all four schools allows modern scholars to integrate zakat with current economic conditions, including inflationary challenges.

4. Economic Perspectives on Inflation and Zakat:

4.1 Understanding Inflation in Modern Economics:

Inflation is broadly defined as a sustained increase in the general price level of goods and services in an economy over time (Samuelson & Nordhaus, 2010). Economists generally classify inflation into three main types:

1. **Demand-pull inflation** – arises when aggregate demand exceeds aggregate supply, pushing prices upward.
2. **Cost-push inflation** – results from rising costs of production (e.g., wages, raw materials), which are passed on to consumers in the form of higher prices.
3. **Monetary inflation** – caused by an excessive increase in money supply without corresponding growth in real output.

Inflation erodes the purchasing power of money, disproportionately harming fixed-income groups and the poor, thereby increasing inequality (Mankiw, 2019).

4.2 The Economic Role of Zakat:

Zakat, as an obligatory redistribution mechanism, can mitigate inflationary pressures in several ways:

a) **Redistribution of Wealth and Aggregate Demand:**

Zakat channels resources from the wealthy to the poor, increasing the latter's consumption capacity. Poor households typically spend a higher share of income on essential goods, which stimulates real demand in productive sectors rather than speculative markets (Kahf, 1997). This pattern contributes to balanced economic growth and reduces inequality.

b) **Discouragement of Hoarding:**

By imposing dues on idle assets, zakat creates an incentive for wealth owners to invest in productive ventures rather than hoarding cash or commodities. Since hoarding contributes to artificial scarcity and speculative inflation, zakat serves as a corrective mechanism (Chapra, 1993).

c) **Stabilization of Money Supply:**

When zakat is institutionalized through state-managed funds, it functions as a non-distortionary fiscal tool. Unlike conventional taxation, zakat rates are fixed and transparent, minimizing the inflationary effects of unpredictable fiscal policies (Shirazi, 2014).

d) **Encouragement of Productive Investment:**

Properly managed zakat funds can be allocated to microfinance, agricultural development, and small enterprises, thereby expanding productive capacity. This supply-side expansion reduces cost-push inflation by lowering production costs and increasing availability of goods (Hasan, 2015).

4.3 Comparing Zakat with Conventional Fiscal Policies:

Conventional governments often rely on taxation and monetary policy to curb inflation. Taxes, however, may distort incentives and reduce investment. In contrast, zakat operates as a spiritual obligation with fixed rates, creating less economic distortion. Moreover, while interest-based monetary systems can exacerbate inflation through speculative lending, zakat promotes equity financing and circulation of wealth, contributing to stability.

4.4 Empirical Evidence and Modern Applications:

Several case studies highlight zakat's economic potential:

- **Saudi Arabia:** The institutionalization of zakat through government bodies has helped channel significant resources to welfare, reducing reliance on inflationary deficit financing.
- **Malaysia:** State zakat institutions integrate modern accounting with Sharia principles. Studies indicate that zakat collection enhances consumption among the poor and contributes to poverty alleviation without triggering inflation (Rahman & Ahmad, 2011).
- **Sudan:** Despite challenges, Sudan's zakat system has shown potential in providing safety nets during inflationary shocks, particularly for vulnerable groups.

These cases demonstrate that zakat, when effectively managed, not only alleviates poverty but also mitigates some drivers of inflation.

4.5 Synthesis: Zakat as an Anti-Inflationary Tool:

The economic mechanisms of zakat align with the objectives of Islamic law (*maqasid al-shari'ah*), especially justice and welfare. By redistributing wealth, discouraging hoarding, and promoting productive investments, zakat provides a unique anti-inflationary framework. It reduces demand-pull pressures by ensuring that increased consumption is matched with supply-side growth, while also mitigating cost-push and monetary inflation by stabilizing resource allocation.

5. Case Studies: Institutionalization of Zakat and Its Impact on Inflation

5.1 Saudi Arabia: Centralized Zakat Collection

Saudi Arabia provides one of the most prominent examples of state-led zakat administration. The Saudi government has institutionalized zakat through the General Authority of Zakat and Tax, ensuring systematic collection from companies and individuals (Al-Harbi, 2016). Collected zakat is redistributed to eligible beneficiaries under Qur'an 9:60 categories, primarily focusing on the poor and needy.

From an economic perspective, this centralized approach contributes to:

- **Wealth redistribution:** channelling corporate and personal wealth into welfare programs.
- **Reduction in inequality:** by strengthening consumption capacity among vulnerable groups.
- **Inflation mitigation:** through enhanced purchasing power in essential goods markets, rather than speculative assets.

Although Saudi Arabia faces challenges from oil dependence and fiscal deficits, zakat remains an important non-inflationary revenue source that reduces reliance on borrowing or money supply expansion.

5.2 Malaysia: Zakat and Modern Economic Development

Malaysia's zakat administration is managed at the state level under Islamic Religious Councils. Over the past two decades, zakat collection has significantly increased, partly due to modern management practices and integration with banking systems (Abdullah, 2010).

The Malaysian model is notable for:

- **Professional management:** computerized systems and transparent reporting.
- **Productive allocation:** zakat funds directed to microfinance, entrepreneurship, and vocational training.
- **Social safety nets:** reducing poverty incidence and enhancing financial resilience.

Studies indicate that zakat in Malaysia not only alleviates poverty but also contributes to **price stability**. By stimulating productive activities and supporting small enterprises, zakat increases supply and reduces the risk of cost-push inflation (Rahman & Ahmad, 2011).

5.3 Sudan: Zakat in Times of Economic Instability

Sudan represents a contrasting case, where zakat is constitutionally mandated and centrally administered by the Zakat Chamber. Despite economic crises, hyperinflation, and political instability, zakat has played a stabilizing role.

Key contributions include:

- **Emergency support:** zakat funds have been mobilized during inflationary shocks to support food and health security.
- **Income transfers:** providing direct assistance to the poor, cushioning them from inflation's harshest effects.
- **Institutional challenges:** corruption, inefficiency, and weak infrastructure have limited zakat's broader economic impact.

Nonetheless, even under adverse conditions, zakat has proven effective in mitigating inflation's social costs by providing immediate relief to the poor (Ahmed, 2013).

5.4 Comparative Insights:

The three cases highlight important lessons:

1. **Saudi Arabia** demonstrates the benefits of centralization and state oversight.
2. **Malaysia** showcases integration of zakat with modern financial institutions, linking it to economic growth.
3. **Sudan** illustrates the resilience of zakat even under hyperinflation, though institutional weaknesses reduce its effectiveness.

Overall, the comparative evidence shows that zakat's impact on inflation depends significantly on institutional design, governance quality, and integration with broader economic policies.

6. Discussion: Integrating Fiqh and Economics

6.1 Zakat as a Bridge Between Sharia and Economics:

Zakat occupies a unique position in Islamic thought, functioning simultaneously as a religious duty (*ibadah*) and a socio-economic institution (*mu'amalah*). The fiqh tradition provides detailed prescriptions regarding its scope, rates, and recipients, while modern economics offers tools to analyze its broader macroeconomic impacts. When integrated, these two perspectives reveal zakat as both a moral imperative and a practical solution to economic instability.

6.2 Jurisprudential Flexibility and Economic Realities:

The four Sunni schools of law, despite differences in technical rulings, converge on the principle that zakat serves justice and redistributes wealth.

- The **Hanafi** and **Maliki** jurists' recognition of currency value adjustments resonates with modern concerns about inflation.
- The **Shafi'i** and **Hanbali** reliance on *maslahah* demonstrates jurisprudential openness to policy adaptations in light of public welfare.

This flexibility provides a framework for reinterpreting zakat in a way that remains faithful to Sharia while addressing contemporary economic realities.

6.3 Inflation Control Through Zakat: A Dual Perspective

From a fiqh perspective, zakat prevents wealth concentration, ensuring compliance with Qur'anic injunctions (Qur'an 59:7). From an economic perspective, zakat counteracts inflation through:

1. **Redistribution** – enhancing demand among the poor while reducing speculative excess.
2. **Circulation of wealth** – discouraging hoarding and increasing productive investment.
3. **Supply-side support** – funding small enterprises and agriculture, expanding output to balance demand-driven inflation.
4. **Non-inflationary revenue** – unlike debt or money printing, zakat provides stable financing without monetary expansion.

The convergence of these insights underscores zakat's potential as a structural solution to inflation, beyond short-term fiscal or monetary measures.

6.4 Institutionalization and Governance:

The case studies of Saudi Arabia, Malaysia, and Sudan highlight the decisive role of governance. Well-structured institutions maximize zakat's anti-inflationary effects by:

- Ensuring transparency and accountability in collection.
- Linking zakat disbursement to productive sectors rather than pure consumption.
- Integrating zakat policies with national economic strategies.

Weak institutions, by contrast, undermine zakat's potential, as seen in Sudan. This suggests that the success of zakat depends not only on its fiqh legitimacy but also on administrative efficiency.

6.5 Toward a Maqasid-Based Economic Framework:

Ultimately, zakat's role in addressing inflation should be understood within the higher objectives (*maqasid al-shari'ah*): preservation of wealth, alleviation of poverty, and realization of justice. A maqasid-oriented approach bridges the technical rulings of classical jurists with the analytical insights of modern economics. It allows zakat to serve as both an act of worship and a policy tool, harmonizing spiritual and material dimensions of life.

7. Conclusion

This study has explored zakat from both fiqh and economic perspectives, with particular attention to its potential role in mitigating inflation. Classical jurists across the Maliki, Shafi'i, Hanafi, and Hanbali schools emphasized zakat's function as a tool for redistributing wealth and maintaining social justice. Despite differences in legal reasoning, they shared a concern for fairness and public welfare, which resonates with modern challenges such as currency devaluation and inflation.

From an economic standpoint, zakat addresses inflation through multiple channels: reducing inequality, discouraging hoarding, stabilizing money supply, and promoting productive investments. Unlike conventional taxation or debt financing, zakat provides a non-inflationary revenue source rooted in ethical principles.

The comparative case studies of Saudi Arabia, Malaysia, and Sudan illustrate that the institutionalization of zakat significantly influences its effectiveness. Strong governance, transparency, and integration with broader economic policies amplify zakat's capacity to mitigate inflation. Weak institutions, by contrast, limit its potential.

Recommendations

1. **Institutional Reform:** Muslim-majority countries should strengthen zakat institutions by ensuring professional management, transparency, and accountability.
2. **Integration with Economic Policy:** Zakat administration should be aligned with national economic strategies, particularly in addressing inflation and poverty.
3. **Indexation of Zakat:** Drawing from Hanafi and Maliki insights, zakat obligations should reflect real value rather than nominal figures, thereby protecting recipients during inflation.
4. **Productive Allocation:** A portion of zakat funds should be directed to microfinance, small enterprises, and agriculture to expand supply and reduce cost-push inflation.
5. **Research and Dialogue:** Continuous scholarly dialogue between fuqaha' and economists is essential for developing Sharia-compliant strategies to address modern economic challenges.

In conclusion, zakat is more than a ritual obligation; it is a dynamic institution capable of addressing one of the most pressing economic issues of our time. When guided by fiqh principles and supported by sound economic policy, zakat provides a sustainable framework for achieving justice and stability in Muslim societies.

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