EXCHANGE RATE: INTERNATIONAL MONEY VALUE STABILITY, TOWARD ISLAMIC PERSPECTIVE

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ABSTRACT

Information about Islamic perspective on exchange rate in relation with global exchange rate stability is still lacking in mainstream literature. This latest work aimed to set theoretical basics of thought about exchange rate in Islamic perspective in relation with global exchange rate stability paradigm which has close relationship with international trade. This paper explains exchange rate in conventional perspective and exchange rate conceptualization in Islam religion and effect of both exchange rates on international exchange rate stability. This conceptualization aimed to establish an enlightening dialogue and encourage understanding about inter-country currencies use in Islamic conceptualization to benefit academics, practitioners and policy makers.

INTRODUCTION

In essence, trading is an exchange. International trading is not different with exchange between two individual within a country. The difference is that in international trade one party might live in other country. In the global economy, it can be said that there is no country that runs its economy without interacting with others. These trade relationships include various types ranging from simple one like barter, goods or commodity transaction (agriculture, plantation and the like products) to most complex trade transaction or relationship.

Complexity of the international trade relationship or transaction is caused by technology service (particularly information technology) hence trade transactions can be done in faster manner. Country borders are no longer barrier for transaction to process, even by advanced technology, in recent day businessmendo no longer need to identify or know their trade partners who live in very remote location.

Payment transaction or service and goods buying between one country and others is performed through several ways including cash, L/C, transfer via bank and other valuable notes based on exchange rate of destination country. According to Karim (2014:157):

“exchange rate represents exchange price level of one currency to others and be used in various transactions including international trade transaction, tourism, international investment, or inter-country short term cash flow which cross geographic borders or legal borders.”

Conventional Exchange Rate Theory
According to Greenwald, (1982:430) it is stated that:
“Exchange Rates or more popularly known as currency rate is quotation of market price of foreign currency in domestic currency or vice versa, domestic currency value in foreign currency.”

“Exchange rate represents exchange price level of one currency to others and be used in various transactions, including international trade transaction, tourism, international investment, or inter-country short term cash flow which cross geographic borders or legal borders.”

A country exchange rate can be determined by government (monetary authority) such as in countries which use fixed exchange rates or determined by combination between market powers which are interacted each other (commercial bank – multinational corporate – insurance company asset management company – foreign exchange bank – central bank) and government policy such as in countries which use flexible exchange rates system regime.

Exchange rate can be noted as spot or immediate delivery (delivery +/- 2 days) or also can be noted as forward transaction in various delivery periods. Difference between spot note and forward generally reflected difference between cost of borrowing in two currencies in related period since every country has relationship in investment and trade with some others hence none exchange rate can measure purchasing power adequately of domestic currency over foreign exchange in general. According to Karim (2014:158) concepts of effective exchange rate has been developed to measure weighted average of foreign exchange rate in domestic currency.

**Purchasing Power Parity Theory**

**Purchasing Power Parity** or PPP is defined as condition where price of any goods which can be traded (tradable goods) in any currency should be same wherever the goods are bought (Landsburg, 1997:503). Say if any identical goods are purchased in two countries where there is no transaction cost, transportation cost and no trade barrier hence it can be said as tradable goods. If arbitrage condition, a condition where there is no opportunity to purchase a good with lower prices and resell it with higher price, occurs for every individual goods, then this arbitrage condition will occur either for a group or a basket of goods in representative quantity hence following equation can be derived:

\[ P = e P' \]

Where:
- \( P \) = (domestic price)
- \( P' \) = (foreign price)
- \( e \) = (exchange rate)

The above equation is what called as purchasing power parity equation which state that Rupiah in quantity x n Indonesia will have same purchasing power in Singapore. It will be in line with insurance that every goods is tradable and existing arbitrage condition that guarantee each individual can sell the goods with equal price in everywhere.
Real exchange rate of a country is amount of domestic goods needed to purchase 1 identical good unit in foreign location. The equation is following:

$$\text{Real Exchange Rate} = \frac{e^{P_r}}{P}$$

If real exchange rate > 1, then more than 1 unit of domestic goods are needed to buy identical foreign goods. If real exchange rate <1, then less than 1 unit of domestic goods are needed to buy identical foreign goods.

Exchange Rate Policy

In this section it is assumed that in domestic price changes that can disturb exchange rate is not exist. Price change occurred in foreign can be grouped by two causes:

1. Non-Engineered/Non-Manipulated Changes:
   Called as Non-Engineered/Non-Manipulated Changes are due to the occurred change is not caused by manipulation (aimed to impose loss) performed by specific parties. For example, if Singapore Central Bank (SCB) lessens circulated SGD amounts, then it will cause IDR depreciated unpredictably (planned by Indonesia Bank). Therefore, BI usually will exclude this effect by selling SGD it owns (foreign exchange reserve) both by sterilized intervention and by unsterilized intervention.

   If BI adds IDR by issuing it, then it is called as unsterilized intervention whereas if IDR is added by selling other asset then it is called as sterilized intervention.

   Decreased SGD supply will cause IDR exchange rate on SG weaken (depreciate), it is due to expected return on SGD deposits increase. The weakening exchange rate will cause imported goods from foreign will be more expensive hence industries which have to import input goods needed in their production processes from foreign have to buy more expensive and furthermore making the manufactured goods price become more expensive too.

   Then how do government (monetary authority) cope this issue? Using analogy as conducted by Khalifah Umar ibn Khattab r.a, Bank Indonesia could take intervention by decreasing IDR supply through foreign exchange reserve (SGD) selling. Decreased IDR supply will cause expected return on IDP deposits to increase. It will make IDR exchange rate on SGD being appreciated or strengthened.

   Then to what extent the BI intervention could be done? Intervention is only performed until initial exchange rate (before changes occured), or in other term "original supporting level."

2. Engineered/Manipulated Changes:
   Such called Engineered/manipulated changes is due to the change occured is caused by manipulation by particular parties aimed to impose loss on other parties. For example fund managers in Singapore release IDR they posses hence "Rupiah flood" occur which cause Rupiah exchange rate depreciated in sudden or drastic way which BI does not predict.

   Action by fund manager in Singapore keeping IDR to release it in particular time to reap benefit from IDR exchange rate fluctuation is prohibited by Islam law considering that: first, it is categorized as ikhtiar (supply manipulation to take advantage beyond normal benefit without engineering).

   Should it occured, using Ibn Taimiyah thought analogy, government should stipulate exchange rate system which is fixed temporarily to prevent these
vicarious acts. Exchange rate stipulation should be done by Bank Indonesia in original supporting level of IDR that is IDR exchange rate before occured engineering which predispose to the IDR fluctuation (this policy is acted until the fund managers attack subside."

Second, when fund managers in Singapore commit manipulation on IDR demand, for example through forward transaction mechanism combined with margin trading, hence as if IDR demand drastically decrease where furthermore these fund managers will reap benefit from the IDR exchange rate fluctuation. It is also prohibited in Islam which categorizes it as Ba’i Najasy (demand engineering to take advantage beyond normal benefit without engineering).

Fund managers actions in Singapore by manipulating IDR demand through forward transactions and margin trading through big foreign banks complemented with political issues maneuver (such as if anti-US demo keep continuing IDR will keep weakening) will cause ducking effect that is making opinion of weakening Rupiah in future. Similar with coping Ikhtikar, to cope Ba’i Najasy Bank Indonesia has to stipulate a temporary fixed exchange rate on its level original supporting until these vicarious actions by fund managers subside.

Foreign currency can be used to purchase goods from foreign or also financial assets such as stock, obligation, treasury bills, option, futures, warrants and others. If someone travels from Indonesia to Singapore for vacation purpose, probably he/she wants to buy Singapore Dollar (SGD) with Indonesian Rupiah (IDR) by prevailing exchange rate. If every SGD 1 is valued IDR 5000 then it can conversely be expressed by every IDR 50 is valued as 1 cent SGD. The higher SGD price (in IDR term) is the lower IDR price (in SGD term) vice versa.

In any country, the only official institution which can change its currency supply is central bank of the country. Central bank in its daily activity often sells and buys foreign currency. According to Karim (2014:162), every central bank can chose between two different exchange rate policy regimes as follow:

1. **Fixed Exchange Rate Regime**: when authority of a country stipulate a specific exchange rate for its currency;

2. **Flexible Exchange Rate Regime**: when a country exchange rate is determined by balance occured in its exchange rate.

3. **Fixed Exchange Rate Regime**

   Within this policy system central bank of a country announces specific exchange rate for its currency on particular foreign currency where central bank is willing to buy and sell foreign currency with any quantity. For example is Indonesia in era before mid 1980s used fixed exchange rate hence Central Bank can control exchange rate or money supply, but not simultaneously. If central bank stipulated exchange rate then it has to offer any quantity money needed by traders or in other words Central Bank has to buy any quantity foreign currency offered by traders (losing control over currency supply) shall it happen international reserve crisis will result, that is condition where a central bank loses its ability to maintain particular exchange rate for its currency. When Central Bank realized that foreign exchange reserve has been depleted excessively, then Central Bank is forced to increase foreign currency
value over domestic currency in the hope that demand over foreign exchange reserve decreases. It is known as devaluation whereas if the converse occurs where central bank has to buy foreign exchange to decrease its currency over foreign currency the term used is revaluation.

When Central bank loses control over currency supply, Central Bank also loses control over price level, hence Central Bank is willing to control domestic price level and must let exchange rate to freely floating.

4. Flexible Exchange Rate Regime

This floating exchange rate regime is system most used by countries in the world. If central bank is willing to increase money supply, it can print money and then buy any asset (usually in form of government obligation). If central bank is willing to decrease money supply, then it can sell any asset (usually also in form of government obligation) and destroys money it gained from the selling.

In other hand, if BI bought IDR, then it could influence IDR supply since BI could effectively destroys IDR it gained from the asset selling. The Central Bank activity of trading currency is termed as “intervention.” By intervention, Central Bank makes change of foreign currency demand. According to (2014:162) it is stated that in general, Central Bank intervention can be differentiated into two:

a. Unsterilized Intervention: intervention which is not accompanied by offset acts designed to prevent overall change on domestic money supply;

b. Sterilized Intervention: intervention accompanied by offset acts designed to prevent overall change on domestic money supply;

Individuals who had debt to foreigner would not be influenced if domestic currency value was depreciated as expected since effect of depreciation had been included within debt amount as firstly negotiated, but if depreciation occurred beyond level predicted (unexpected) then the effect would be worse for individuals who had debt in foreign currency.

Exchange rate is determined by demand and supply from the currency. Furthermore, supply on IDR is determined by Bank Indonesia whereas demand on IDR would depend among other on Indonesian citizen income. Individuals with higher income will need more money. Same thing happens to foreign currency. Karim (2014:163) stated that exchange rate since following buying power terms has following mathematic equation:

\[ e = \frac{P}{P'} \]

P and P’ levels are determined through money demand and supply interaction in each country. Then, bargaining of arbitrage opportunity will force exchange rate toward level where buying power parity equation of P = e P’ prevails.

According to Karim (2014:162):

“In neoclassical theory, price rate within a country can change due to money supply or due to factors predisposing to the country output change such as fiscal policy, technology, war, weather and others. Increased IDR
supply cause Rupiah being depreciated, conversely increased foreign currency demand (for example SGD) will cause Rupiah being depreciated, should significant money demand increase happen, then significant price increase automatically would result (inflation).

We know that price fluctuates significantly due to decreased money demand and depreciation. This fluctuation is also termed as “exchange rate overshooting.” The exchange rate overshooting is an important phenomenon since it can help us in explaining why exchange rate moves drastically from day to day.

Islamic Exchange Rate Theory

Karim (2014:167) stated, as in his previous writings about inflation, that appreciation/depreciation (fluctuation) causes of exchange rate in Islam are grouped into two:

1. Natural;
2. Human Error

In discussion about exchange rate based on Islam two scenarios are used:

Scenario 1: price changes occur in domestic which influence exchange rate (foreign factors are considered fixed/not influencing);

Scenario 2: price changes occur in foreign (factor in domestic is considered unchanged/not influencing)

In addition, bear in mind that exchange rate policy in Islam can be said using Managed Floating system where the exchange rate is result of government policies (not constitute manner or policy itself) since government is not intervening balance occurred in market except things which disturb the balance. So it can be said that a stable currency is result of appropriate government policy.

To make easier, in this discussion about Islamic exchange rate Rupiah (IDR) as domestic currency and Singapore Dollar (SGD) as foreign currency will be used as example.

Like inflation, fluctuation causes of a currency are grouped as follow:

**a. Natural Exchange Rate Fluctuation:**

1) Exchange rate fluctuation due to changes occurred on Aggregate Demand (AD): like discussion in inflation part, AD expansion (AD↑) will cause overall price level increase (P↑). As we know that P = e P', when price level in domestic (P>IDR) rises whereas price level in foreign (P>SGD) is fixed then exchange rate will be depreciated (e↓). Conversely, if AD experienced contraction (AD↓) then price level will decrease (P↓) which cause exchange rate being appreciated (e↑);

2) exchange rate fluctuation due to changes occurred on Aggregate Supply (AS)

Exchange rate fluctuation due to changes occurred in Aggregate Supply (AS): if AS experienced contraction (AS↓) then it will cause increased overall price level (P↑), which will cause weakening exchange rate (depreciation) (e↑). Conversely, if AS experienced expansion (AS↑) then overall price level will decrease (P↓) which will strengthen exchange rate (appreciation) (e↓);
b. Human Error Exchange Rate Fluctuation:
1) Corruption and Bad Administration: As we discussed in inflation section, corruption and poor governance will cause price to increase due to misallocation of resource and high mark up which has to be done by producers to offset “ghost costs” in their production process. In effect, overall price level will increase \( (P_i) \). If referring to equation \( P = e P' \), increased price level will cause exchange rate to depreciate \( (e\downarrow) \);

2) Excessive Tax: High sale tax imposed to goods and services will increase selling price of these goods and services. In aggregation, prices level will increase \( (P_i) \). If we refer back to equation \( P = e P' \), it can be concluded that excessively high tax rate will cause exchange rate to weaken (depreciation) \( (e\downarrow) \);

3) Excessive Seignorage: As discussed in chapter about inflation, full bodied money issuers or 100% reserve money will not cause inflation. However, if money to be issued other than both types it will cause increased price in general. Effect caused by excessive money issuance (outnumbering real sector need) is increased overall price level \( (P_i) \) or inflation. Referring back to buying power equation \( P = e P' \), if price level in domestic increase \( (P_i) \) whereas foreign price level fixed then exchange rate will be depreciated \( (e\downarrow) \).

The inflation itself can be termed as “tax on holding money” since it causes individuals are unwilling to hold money due to the value decreasing. Individual’s tendency to hold money will cause money demand to decrease \( (M_d) \). For example, inflation occurred in Indonesia was due to causes as stated above.

International Trade and Dinar Currency History

Dinar Currency History

In pre Islamic era, dinar was money to be used in trade transaction. Various types of gold dinar and silver dirham were circulated in trade as increasingly Arabs conducted trading with Romans of Byzantine, and traders who passed Arab land. At that time, Makkah city became center of trading and currency exchange, hence many traders from various countries came to Makkah to meet and conducting trade transaction.

Terminologically, dinar derived from term denarius (East Rome) and dirham derived from term drachma (Persia). According to Islamic law, dinar to be used was equal to 4.25 grams of 22 carats golds with 23 milimeters in diameter. This Standard had been fixed in Rasulullah era and had been used by World Islamic Trading Organization (WITO) until today. Meanwhile dirham was equal to 2.975 grams of pure silver. Dinar and Dirham are currency functioning as exchange instrument both before and after Islam (Sanusi, 2002).

In Moslem history, The Prophet and friends used dinar and dirham as their currency. In addition to function as exchange tools, dinar and dirham were used either as syariah laws measurement standard such as in determining zakat imposition or thief measurement. In
the prophet era, dinar and dirham were set as trade transaction instrument by Arabians. Arab Quraish clan had tradition having trade trips twice a year, one summer trip to Syam (now Syria) and one winter trip to Yaman.

According to Huda et.al (2008:100) dinar and dirham were printed for the first time during Khalifah Abdul Malik bin Marwan rules in 695 AD/77 H. In their journey as usable currencies, dinar and dirham tended to be stable and not experienced significant inflation for ± 1500 years. Use of dinar and dirham ended with the fall of Usmani Turkey Islamic Caliphate in 1924.

Effect of Dinar Use in International Trade

Dinar use is a solution for world economy problem which is now using fiat money. Use of fiat money creates global economy instability and to cope that more stable money is needed, that is gold dinar. In 1250 AD/648 H in Egypt where dinar was used as monetary basis once ever been influenced by fulus money, that is mixture of brass and copper. Use of fulus money and added by worsening economy condition had made price instability. To solve that problem Al-Magrizi (768-845 H) in his book Ummah bi Kasyfiil Ghummah explained the condition in detail way and gave solution for Egypt economy condition at that time. According to Huda et.al (2008:103), among Al-Magrizi thoughts are:

1. Only dinar and dirham which can be used as money
2. Stopping debasement of money; and
3. limiting fulus money use

According Al-Magrizi, to cope with the condition, dinar and dirham money have to be used for goods and service trade such as workers wage payment. To support dinar and dirham use, government has to stop debasement of money and limiting fulus money only for small scale transaction and only for household daily need transaction. Meanwhile, dinar and dirham are used for greater scale transaction such as foreign trade and other domestic transaction (Al-Magrizi, 2002; Rosly and Barakat, 2002).

Has an in his book Al-Awraq an Nagdiyyat fi al-Ightishadi al-Islamy stated that as World War I ended, every country imposed tight surveillance and rules on world trade to decrease goods and commodities imports such as by imposing tax and tariff. Every country tried to encourage export which then caused price differential in every country.

When trade used gold as trade instrument then price index will maintain adjustments since using gold plays important role to maintain price stability in many countries. For example, trade agreement between Syria and French were carried by using gold system. Syria imported commodity in massive scale from French and it caused gold exit from Syria toward French and gold reserve in Syria will deplete. At that time prices will decrease. When commodity price decrease in Syria, other countries will import from Syria and at that time gold will reenter and strengthen in Syria. But when world trade is no longer acted freely, gold money is substituted by paper money which cause prices index differential (Hasan, 2005:49)
According to Majdi, Siswantoro and Brozovsky (Stable and Just Global Monetary Systems, 2002), dinar use performed by both countries in bilateral trade will cause automatic adjustment on their balance of payment. Simple example is when one country exports goods to other then the country will have more dinar gold and less goods. It will cause the goods price to be lifted as export exist and by the higher price level automatic adjustment on balance of payment difference will occur.

Dinar money and domestic money use in simultaneous way will create speculation of exchange rate between paper money and dinar money which at the end will cause dinar money system falls. Based on the experience, arrangement on the dinar money is needed in forms of: (Siswantoro et al, 2002):

a. Dinar money is only allowable for goods and service exchange.

b. Monetary value of dinar money has to be higher than its intrinsic value. It is aimed to prevent dinar money accumulation for jewelry.

c. Use of dinar money needs central bank to play a role controlling and determining amount of dinar to be exist and circulated. By this way, dinar money circulation flow will be controlled well.

**Reason and Advantages of Dinar Money Use**

There are some reasons of using Islam dinar currency in order to achieve monetary system stability, including:

1. Stable money. Difference between dinar money and fiat money is the money value stability. Each dinar money contains 4.25 grams of 22 carat gold and there is no difference of gold measurement contained by dinar in every country, there is no difference of dinar value used in Iraq and dinar used in Saudi Arabia. Dinar money has not been suffering from inflation since Rasulullah SAW time to know. A research has been conducted by Professor Roy Jastram from Berkeley University who wrote book of The Golden Constant. He studied gold price on some commodities for 400 years period ended in 1976. His results showed that gold price is constant and stable. Although during these periods crisis, war, and disasters were occured the gold value was relatively stable (Vadillo, 2002).

2. Proper exchange instrument. With stable value and same standard in every country, dinar will provide feasibility and advantage for people who want to have international transaction, so there is no difference between a goat fixed at one dinar in Saudi Arabia and one dinar goat in Indonesia since dinar in both countries has same value. Gold dinar is money which has been known for centuries hence verification both legally and according to syariah as money is not required (Vadillo, 2007).

3. Minimizing speculation, manipulation and arbitrage. Same dinar value will minimize speculation and arbitrage level in stock exchange since possibility of exchange rate will be difficult to occur. (Meera, 2002:79-87).

In addition to the three above, it can be stated reasons of
gold system should be applied again:

1. **Unfair Trade**, developed countries dominate world institutions including WTO hence trade globalization become imbalance and tend to give more advantage for these developed countries not for shared progression.

2. Small OKI trade volume. It is ironic that for example Lebanon and Turkey export cheese to Belgium, England and other Europe countries meanwhile Iran, Pakistan, and Syria import same product from Europe (Yakcop, 2002).

3. Failed OKI Economy Program. One of OKI long term cooperation is establishing Islamic Common Market (ICM). ICM functions to facilitate natural resource optimization possessed by every OKI member (Sadeq, 1996:39).

4. Fiat Money creates injustice, for example production cost of one dollar paper money is equal to four cent of dollar (Yusuf et al 2002). By assumption that one dollar is valued Rp. 10,000,- then four cent of dollar is equal to Rp. 400,- whereas in other parts of world 2,8 billions of lives have to work hard for only to gain two dollar a day and even 1,2 billions lives have to work hard for one dollar a day (Wolfensohn, 2004).

5. Money Volatility has negative effect. Volatility creates uncertainty and furthermore increases additional cost in trade. A research which studied G-3 currencies volatility (USA, Japan and Germany) explained that one percent increase of this money exchange rate will decrease about two percent of real export value of developing countries (Esquivel and Larrain, 2002).

6. Gold is always stable in history

   To make dinar as global currency various strategic steps are needed. To substitute fiat money in economy dinar implementation need to be performed periodically, step by step and not in drastic manner. One of steps performed in implementing dinar is by making dinar money as international goods and service trade transaction tools, both multilateral and bilateral.

   There are several things need to be considered in implementing dinar money for international trade including:

   1. **Dinar money role in trade**

      Use of dinar money is not shown to replace domestic currency role but only be used for payment on foreign goods and service trade transaction. Domestic money is still needed as domestic transaction. Dinar money is not embodied with physical form, but be measured in gold price measurement.

   2. **Use of Gold Dinar Money**

      The gold dinar money will be used in both multilateral and bilateral trade transaction. Multilateral trade involves some countries in trade transaction such as expo and import between Malaysia and Saudi Arabia and Indonesia. Whereas bilateral transaction involves two countries in goods and service trade such as trade between Indonesia and Malaysia.
Advantages of Dinar Use in International Trade

Dinar use in international trade mainly in bilateral trade will provide many advantages (Meera, 2004: 95-98), including:

1. Decreasing and abolishing exchange rate risk. Risk created from exchange rate change will influence world economy activity particularly international trade. Dinar money will abolish all risk created from exchange rate since dinar is stable and profitable currency for every country that perform trade.

2. Dinar use will minimize speculation, manipulation, and arbitrage on national currency. But by making dinar as single currency in trade, speculation and arbitrage will not occur in the trade. In practice, economy and politic situation of a country will influence its currency rate and will affect economy activity and market, but by using dinar as global currency, it will not have significant effect since dinar is not belong to particular country.

3. Dinar use will minimize transaction cost and increase trade. Small amount of dinar will be able to cover great amount of transaction and provide opportunity even for country that has no adequate foreign exchange reserve.

4. Dinar money use in trade will increase trade which at the end will increase cooperation between member countries. In addition, dinar use will influence domestic currency condition which at the end will influence national monetary system.

5. Dinar use in international trade will minimize sovereignty (power). By fiat trade system today opportunity and room for developed countries are available to dominate world economy and widen gap between rich countries and poor countries. Dinar use will minimize dependency of developing and poor countries on developed country economy, bearing in mind that most of natural resource in this world are belonging to developing countries.

CONCLUSION

Concepts from effective exchange rate have been developed to measure weighted average of foreign currency rate in domestic currency. Karim (2014:158). Flexible Exchange Rate Regime is a floating exchange rate system used by most countries in the world today. If Central Bank is willing to add money supply, Central Bank can print money and then buy particular asset (usually in form of government obligation) by these money.

Exchange rate policy in Islam can be said using Managed Floating system where the exchange rate is result of government policies (not constitute manner or the policy itself) since government does not intervene balance occured in market except when things which disturb the balance occured. So it can be said that a stable exchange rate is result of a proper government policy.

In pre Islam era, dinar constituted money used in trading transaction. Various types of gold dinar and silver dirham were circulated in trade as a result of many Arabians had trade transaction with Romans of Byzantine and merchants who
passed Arab lands. In moslem history, Rasulullah and his friends used dinar and dirham as their currency. In addition to function as exchange instrument, dinar and dirham were also used as syariah laws measurement standards such as zakat imposition and thieve measurement.

In their journey as usable currency, dinar and dirham tend to be stable and not experience relatively great inflation during ± 1500 years. Cause of appreciation/depreciation (fluctuation) of any currency exchange rate in Islam is also grouped into two groups: Natural and Human Error (Karim, 2014:167). Some strategic steps are needed to establish dinar as global currency. Applying dinar step by step is needed to substitute flat money roles in economy and not in drastically way. One step taken to apply dinar is by making dinar as transaction instrument in international goods and service trade, both multilateral and bilateral.

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