

Rate of Profit as a Pricing Benchmark in Islamic Banking to Create Financial Stability

Authors : Trisiladi Supriyanto

Abstract : Although much research has been done on the pricing benchmark both in terms of fiqh or Islamic economic perspective, but no substitution for the concept of interest (rate of interest) up to now in the application of Islamic Banking because some of the jurists from the middle east even allow the use of a benchmark rate such as LIBOR (London Interbank Offered Rate) as a measure of Islamic financial asset prices, so in other words, they equate the concept of rate of interest with the concept of rate of profit, which is the core reason (raison detre) for the replacement of usury as instructed in the Quran. This study aims to find the concept of rate of profit on Islamic banking that can create economic justice and stability in Islamic Banking and Capital market. Rate of profit that creates economic justice and stability can be achieved through its role in maintaining the stability of the financial system in which there is an equitable distribution of income and wealth. To determine the role of the rate of profit as the basis of the sharing system implemented in the Islamic financial system, we can see the connection of rate of profit in creating financial stability, especially in the asset-liability management of financial institutions that generate a stable net margin or the rate of profit that is not affected by the ups and downs of the market risk factors including indirect effect on interest rates. Furthermore, Islamic financial stability can be seen from the role of the rate of profit on the stability of the Islamic financial assets that are measured from the Islamic financial asset price volatility in Islamic Bond Market in Capital Market.

Keywords : Rate of profit, economic justice, stability, equitable distribution of income, equitable distribution of wealth

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