

# Restoring The Golden Glory: Tracing The Implementation of Dinar-Dirham In The Financial System of Prophet Muhammad And its Significance as a Global Currency

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## ABSTRACT

This study explores the concept of Dinar and Dirham, their use during the Prophet's era as mediums of exchange, evaluates their strengths and weaknesses, and analyzes their potential as international currencies to address currency crises and inflation. A qualitative method is employed in this study, involving the collection and analysis of data from various literary sources through a descriptive analysis approach. The research findings reveal that Dinar and Dirham, although adopted from Roman and Persian cultures, were chosen due to the robust stability provided by gold as the underlying value of Dinar. However, the use of Dinar and Dirham cannot directly serve as an alternative to address the economic problems caused by currencies. Limited gold supply and vulnerability to criminal misuse are key drawbacks of Dinar and Dirham. Moreover, economic issues and crises stem not only from currency problems but also from various other contributing factors. Nevertheless, the reintroduction of the concept of Dinar and Dirham as relevant currencies to address modern currency crises is still worth considering. With a clear understanding of their strengths and weaknesses, and careful management of related issues, Dinar and Dirham have the potential to help address today's global currency crises and inflation.

**Keywords:** dinar, dirham, financial system, global currency.

## INTRODUCTION

Apart from being a Prophet, Prophet Muhammad also served as the head of state in Medina. At that time, Medina did not have a source of national income, and its economy was still at a very low point. Prophet Muhammad was responsible for the treasury of Medina and became the first head of state to introduce the concept of public finance<sup>1</sup>. His competence and expertise in economics led Medina to experience significant development. The financial

<sup>1</sup> a J Sadiq And M Akbar, 'A Review Of Monetary Determinants Of Cryptocurrency Adoption In Islamic Financial System', *Journal of Information Systems and Digital ...*, 2022.

system during the time of Prophet Muhammad should serve as a model for governments in the current era of modernization<sup>2</sup>. Trade during the time of Prophet Muhammad also played a crucial role in the Islamic economy. In commercial transactions, a medium of exchange was needed.

In addition to his role as a Prophet, Prophet Muhammad also served as the head of state in Medina. During that time, Medina faced serious challenges in terms of national income and had an economy that was still at a very low point<sup>3</sup>. Prophet Muhammad, in his capacity as a leader, was directly involved in the financial management of Medina. He was one of the first national leaders to introduce the concept of public finance<sup>4</sup>. Prophet Muhammad's economic expertise and wisdom brought about significant development in Medina. Therefore, the financial system during the time of Prophet Muhammad is worthy of being a model for governments in the current era of modernization.

Furthermore, trade played a significant role in the Islamic economy during the time of Prophet Muhammad. In commercial transactions, a medium of exchange was needed to facilitate the exchange of goods and services<sup>5</sup>. Prophet Muhammad set an example in regulating and facilitating fair and efficient trade transactions<sup>6</sup>. Thus, the experiences and practices of public finance and trade during the time of Prophet Muhammad can serve as inspiration and a model for governments in the current era of modernization in developing transparent, effective, and fair financial systems and promoting just trade<sup>7</sup>.

Money is an integral element in human life as a means of transaction<sup>8</sup>. History records that humans have used the barter system as a mechanism for exchanging goods to meet their needs. However, it has been proven that this system is inefficient in fulfilling those needs, as individuals have to find willing

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<sup>2</sup> Z I Ahmad and M Mustofa, 'Advantages of Dinar and Dirham and Profit Sharing System In Monetary Policy', ... *Jurnal Ekonomi Dan Keuangan Islam*, 2022.

<sup>3</sup> J Susyanti, 'Alternative Interest-Free Financial Institutional Systems for Fair Economy: A Constructive Overview', *Jihbiz: Jurnal Ekonomi, Keuangan Dan ...*, 2019.

<sup>4</sup> F Sihabudin, L I Achmad, and ..., 'Analysis of Blockchain Technology and Security Principles in Cryptocurrency Transactions According to the Perspective of Islamic Economics: Case Study: Smart ...', *Ta'amul: Journal of ...*, 2022; F Udin, 'Analysis Of Erwandi Tarmizi's Thinking About Gold Murabahah', *Jurnal Ilmiah Ekonomi Islam*, 2022.

<sup>5</sup> J M Muslimin and others, 'Analysis of Foreign Exchange Transactions (Al-Sharf) Variety in Review of Islamic Law in Indonesia', ... of the 4th International ..., 2022 <<https://doi.org/10.4108/eai.20-10-2021.2316345>>.

<sup>6</sup> L Crebas, T P Utami, and H A Furqoni, 'Analysis Of Macroeconomic Variables To Stability Of Dinar And Rupiah', *International Conference of ...*, 2020.

<sup>7</sup> R Ahmadi, W Hefni, and M M Nafis, 'Between Sunnah Currency and Sufi Doctrine: Mediating and Negotiating the Gold Dinar and Silver Dirham on Digital Platforms by the Indonesian Murabitun', ... *Tasawuf Dan Pemikiran Islam*, 2022; A Fawaid, 'Commodification of the Qur'an in Brand Marketing Community of Dinar Khoirur Roziqin Indonesia', *International Symposium on Religious Literature ...*, 2022.

<sup>8</sup> A Arif and M S Shabbir, 'Common Currency for Islamic Countries: Is It Viable?', *Transnational Corporations Review*, 2019 <<https://doi.org/10.1080/19186444.2019.1657330>>.

partners to exchange goods in order to meet their needs <sup>9</sup>. As a result, the impracticality of conducting economic transactions becomes evident. To overcome these limitations, a legitimate instrument is required to replace the barter system, which is money. The presence of money in society serves as an intermediary that facilitates the exchange of goods and services <sup>10</sup>. Money becomes a legitimate and widely recognized medium of transaction that simplifies economic activities. With the existence of money, individuals can more efficiently meet their needs without relying on complex and time-consuming bartering processes.

In its historical process, there are two main phases in the development of the monetary system, namely the phase of using gold as money and the phase of using fiat money <sup>11</sup>. The phase of using gold as money encompasses the period from 1770 to 1971, which is divided into several stages, including the use of gold coins from 1770 to 1914, the use of the gold exchange standard from 1925 to 1931, and the Bretton Woods system from 1946 to 1971. The end of the gold standard phase in 1971 marked the beginning of the introduction of fiat money <sup>12</sup>. The period of using gold as money was a time when the value of money was based on gold as an internationally recognized standard. Each unit of currency had a value directly linked to the amount of gold held by the monetary authority <sup>13</sup>. This phase underwent significant development through the aforementioned stages, reflecting the evolution of the monetary system during that time.

However, a change occurred in 1971 with the end of the gold standard phase. This event marked an important transition in the global monetary system, where fiat money was introduced as a replacement for gold. Fiat money has a value determined by government policy and public trust, rather than intrinsic value like gold <sup>14</sup>. The use of dinar and dirham in Islam has a historical root that began with Prophet Muhammad as an alternative to the barter system. Prior to the introduction of dinar-dirham, Prophet Muhammad used the barter system in

<sup>9</sup> T Maryanah and L Mufliahah, 'Comparison of Religious Identity Politics Reporting on Depok Muamalah Market', ... *International Conference on Social ...*, 2022; M I M Nasution, S Chaniago, and ..., 'Comparison Study Of Usd, Euro, Gold Dinar Exchange On The Rupiah Exchange In 2009-2012', *Enrichment ...*, 2022; Arif and Shabbir.

<sup>10</sup> B Shoshan, 'Damascus Ca. 1480-1500: A City In Crisis', *Damascus Life 1480-1500: A Report Of A Local Notary*, 2019; M Nasrulloh And A Faozan, 'Existence Of Cryptocurrency As A Tool Of Exchange And Investment In The Perspective Of The Fatwa Of The Indonesian Ulama Assembly', *International ...*, 2021.

<sup>11</sup> J Munawarah, P S Sukmaningrum, and ..., 'Factors Affecting Stock Beta Companies Listed in Jakarta Islamic Index 2012-2016 Period', *The 2nd International ...*, 2019.

<sup>12</sup> B S Kadri, 'Gold Currency Model in Aceh', *Al-Iqtishad: Jurnal Ilmu Ekonomi ...* (download.garuda.kemdikbud.go.id, 2020).

<sup>13</sup> M I Firdaus, A L Daniswara, and ..., 'Implementation of Fiqh Muamalah Contracts in Electronic Money (E-Money) Transactions', *Al-Muamalat: Jurnal ...*, 2023.

<sup>14</sup> M I Rosele and others, 'Imposing Zakat on Cryptocurrency (Bitcoin): A Shariah Appraisal', *Global Business ...*, 2023 <<https://doi.org/10.1504/GBER.2023.127550>>; M Sholihin, 'Legal Reasoning of Credit on Buying and Selling Gold: Mapping The Debate on'Ilath Al-Hukm [Menalar Hukum Kredit Jual Beli Emas: Memetakan Perdebatan ...]', *Legitimasi: Jurnal Hukum Pidana Dan Politik ...*, 2021.

trade activities <sup>15</sup>. However, there were challenges and limitations faced in the barter system, driving people to seek concepts and widely accepted media as efficient means of exchange.

Over time, Prophet Muhammad established dinar-dirham as a medium of exchange adopted from the Roman and Persian civilizations <sup>16</sup>. The introduction of dinar-dirham as a medium of exchange in Islam was a significant step in overcoming the limitations and impracticality of the barter system <sup>17</sup>. Dinar and dirham have intrinsic value based on gold and silver commodities, providing stability and agreement in trade transactions <sup>18</sup>. Prophet Muhammad chose to adopt dinar-dirham from the Roman and Persian civilizations because gold and silver had proven to have strong value stability in the economic context.

Several studies have been conducted to explore the concept of using dinar-dirham. One of them is a journal article written by Suhada<sup>19</sup>. This research used a literature or desk study approach to gather relevant data and information. The results of this study show that the use of dinar as a currency has the potential to achieve economic justice. The uniqueness of dinar and dirham lies in their higher stability compared to fiat currencies. This is due to the nature of dinar and dirham that cannot be printed or destroyed arbitrarily.

Furthermore, this research also highlights that injustice in the economic system can lead to income distribution inequality among nations. To address this issue, the use of dinar-dirham as a currency can be one of the solutions. Dinar-dirham offers better value stability and can contribute to creating more equitable economic justice. Therefore, the implementation of dinar-dirham as a currency can be a relevant step in addressing the economic challenges faced today.

This research aims to provide an in-depth analysis of the concept of using dinar-dirham in the financial system applied during the time of Prophet Muhammad. History has recorded that the economic and financial system

<sup>15</sup> M R Maika, F Fidiana, and I A Kautsar, 'Model Dinar and Dirham Digital Currency for Islamic Commercial Transaction', *TEST Engineering & ...*, 2019.

<sup>16</sup> B Khalidin, 'Monetary Policy in an Islamic Economics', *International Journal of Research ... (pdfs.semanticscholar.org, 2021)*.

<sup>17</sup> H Rab, 'Money and Monetary Issues in Islamic Finance', ... on *Theory and Practice of Global Islamic Finance*, 2020; H Harun, 'Money Creation Concept and Monetary Policy in Islamic Economy: The Role of Malaysian Regulator.', *Journal of Islamic Banking & Finance*, 2019.

<sup>18</sup> N Oberauer, 'Money in Islamic Legal Discourse: Concepts and Practices', *Quaderni Di Diritto e Politica Ecclesiastica*, 2022 <<https://doi.org/10.1440/105503>>.

<sup>19</sup> N Suhanda and H Firmansyah, 'Money Supply Model in Muslim Countries', *International Journal of Nusantara ...*, 2019; R Kosnina, H Hasanb, and I Ahmadc, 'Perceived Knowledge, Anxiety and Relative Advantage as Antecedence of Attitude towards Gold Dinar Acceptance', *International Journal of Innovation ... (ijcc.net, 2019)*; S Sudarti and W Syarvina, 'Stability Analysis of the Dinar Dirham as an Alternative Currency for the Islamic World', *International Journal of ...*, 2022; W Fitri and V Sherly, 'Studi Fenomenologi Akuntabilitas Dalam Proses Konversi Bank Nagari Sumatera Barat Menjadi Bank Nagari Syariah Sumatera Barat', *Jurnal Eksplorasi Akuntansi*, 2020; F Zahara, 'The Analysis of Maqashid Syariah on the Use of Fiat Money and Dinar Dirham', *Budapest International Research and Critics Institute ...*, 2020; H Aravik, F Zamzam, and A Tahir, 'The Economic Portrait of Mamluk Dynasty of Egypt; History and Thought', *Mizan: Journal of Islamic Law*, 2020; Oberauer.

implemented by Prophet Muhammad was one of the most remarkable periods in history. In this context, this research seeks to explore and analyze the concept of using dinar-dirham during the time of Prophet Muhammad and its relevance if dinar-dirham were to be reintroduced as an international currency in the current era of modernization.

## METHODS

The method employed in this research is a qualitative approach through literature analysis. The study focuses on examining various relevant sources of literature, including books, journals, and other scholarly publications. Data for this research were collected through an in-depth reading and analysis of books and various related literature. This approach aims to generate objective knowledge in the research.

## RESULT AND DISCUSSION

### Prophet's Financial System

The financial system implemented by Prophet Muhammad (peace be upon him) is considered a highly significant, brilliant, and spectacular step of that time. The successful implementation of this system played a crucial role in the rapid growth of Islam as a religion and a state within a relatively short period. The economic system implemented by Prophet Muhammad (peace be upon him) has strong roots in Quranic principles. One of the fundamental principles of Islam is the recognition that ultimate power belongs solely to Allah, while humans are made as His stewards on Earth. This principle is expressed in Surah Al-A'raf, verse 128:

*"Musa said to his people, Seek help through Allah and be patient. Indeed, the earth belongs to Allah. He causes to inherit it whom He wills of His servants. And the best outcome is for the righteous."*

The economic challenges faced by Prophet Muhammad in Medina emerged as the next step after resolving various political affairs and constitutional issues that required serious attention. In the economic context, Prophet Muhammad taught principles of honorable, fair, and consistent trade that would not cause complaints or disappointment from the parties involved. The distinctive features of the Islamic economy taught by Prophet Muhammad encompass the belief in Allah as the Ruler of the Universe and the Ultimate Provider, the absolute owner of everything, while humans are considered as His stewards on Earth. In this perspective, everything is created to serve human needs. The principles emphasized in the Islamic economy include the concepts of halal and haram, the system of charity, the prohibition of usury, the prohibition of hoarding wealth, a moderate attitude, rejection of a life of alienation and materialism, the establishment of justice based on principles rather than mere equality, as well as

the financial and trade concepts applicable during the time of Prophet Muhammad.

The steps taken by Prophet Muhammad to address various financial issues in Medina are described as follows:

### **The Construction of the Main Mosque as the Center of Economic Activities**

The first step taken by Prophet Muhammad was the construction of the Main Mosque, known as the Prophet's Mosque or Masjid Nabawi. The land initially belonged to two orphaned children but was later purchased by Abu Bakr for ten dinars. The Masjid Nabawi served not only as a place of worship but also as a center for economic activities, including gatherings of the parliament, the state secretariat, the army headquarters, and the Baitul Mal (the treasury). By integrating these various functions into one place, Prophet Muhammad managed to avoid excessive expenditures on building separate infrastructures in the newly formed state of Madinah.

In addition to the construction of the mosque, Prophet Muhammad also initiated the development of a new market. At that time, the markets in Madinah were dominated by the Jewish community. The market established by the Muslims was open to all parties, leading to a transfer of economic assets from the Jews to the Muslims. Abdurrahman bin Auf provided opportunities for anyone to engage in trade by providing a place (the market) as a medium for transactions through a profit-sharing system.

### **Rehabilitation of the Muhajirin**

To address the challenges faced by the Muhajirin (migrants) who had limited resources, Prophet Muhammad established a bond of brotherhood between individuals from the Muhajirin and the Ansar (helpers). The Ansar generously shared their wealth with their Muhajirin brethren until they could find new means of livelihood. This step aimed to ensure social and economic equality among the Muslims in Madinah.

### **Establishment of the State Constitution**

Prophet Muhammad drafted the constitution of the State of Madinah, which affirmed the sovereignty of Madinah. In this constitution, the government outlined the rights, obligations, and responsibilities of every citizen. Individuals were prohibited from engaging in activities that could disrupt the stability of human life and the environment, such as cutting down trees or using weapons with the intention of creating violence in Madinah. This measure was taken to uphold security and order in the economic aspect and the general life of the community.

### **Strengthening the State Financial System**

Prophet Muhammad established the foundations of the state's financial system based on the teachings of the Quran. All rules and policies in the

economic sphere that were inconsistent with Islamic teachings were replaced with new policies aligned with the values of the Quran, including the principles of brotherhood, freedom, and justice. This step reflects the role of Prophet Muhammad not only as a trader or a manager of a commercial enterprise but also as a technocrat building an economy to achieve prosperity. In implementing these measures, Prophet Muhammad placed great emphasis on the interests of the community and ensured that the economic principles taught were honest, just, and based on Islamic principles.

In this regard, the Islamic economy taught by Prophet Muhammad has distinct features, such as the understanding that Allah is the Ruler of the Universe and the Ultimate Provider, that Allah is the true owner of everything, and that humans are merely stewards on Earth. Principles such as the concept of halal (lawful) and haram (prohibited), the system of charity, the abolition of usury, the prohibition of hoarding wealth, moderation in behavior, and the prevention of asceticism and materialism are all part of the Islamic economy taught by Prophet Muhammad.

In conclusion, the steps taken by Prophet Muhammad to address financial issues in Madinah included the construction of the Main Mosque as a center for economic activities, the rehabilitation of the Muhajirin through the bond of brotherhood with the Ansar, the establishment of a state constitution to ensure sovereignty and stability, and the consolidation of the state's financial system based on the Quran. All of these steps were taken with the aim of achieving prosperity and justice in an Islamic economic context.

### **Dinar and Dirham**

Dinar and Dirham refer to specific units of currency in the context of Islamic economic principles. In Islam, the concept of money is not seen as a commodity but rather as a medium of exchange. This concept aims to avoid dishonesty, injustice, and deception in economic activities, both in trade transactions and barter exchanges. If money is likened to a mirror, it should reflect the true value of the object. In this context, money is considered a commodity, but its value cannot be measured by using money itself because money cannot represent the intrinsic value it holds.

Islam also promotes the policy that money should always circulate and flow rapidly. Hoarding money without utilizing it for beneficial purposes is not permissible, especially if the money remains unused for an extended period, as it is considered wasteful. The establishment of the Dinar and Dirham currencies began during the time of Prophet Muhammad.

The term Dinar originates from the Roman word *dinasarius*, referring to a specific type of minted gold. On the other hand, the term Dirham derives from the Greek word *drachma*, which means a minted or standardized silver coin. Dirham is made of silver and takes its name from the currency used by the Sasanian people in Persia, while Dinar is a gold coin. Specifically, Dirham is a pure silver coin weighing 2.975 grams, while Dinar is a gold coin weighing 4.25 grams with a 22 karat purity. These standards follow the guidelines set by the

World Islamic Mint (WIM), as per the directives established by Prophet Muhammad and reaffirmed by Caliph Umar Ibn Khattab.

The presence of gold and silver as the currency of Dinar and Dirham aims to establish fair value and prices while avoiding elements of deception, allowing people to fulfill their needs without worry. Prior to the advent of Islam, the Dinar was used as a currency in trade transactions, both on an international and domestic scale. The Arab people, renowned as traders, were engaged in various trade activities with the Romans, Persians, and other merchants passing through Arab territories. With the arrival of Islam, gold and silver, known as Dinar and Dirham, continued to be used in economic and religious activities. Dirham served as a medium of trade as well as a means of paying Zakat (charitable giving) and fines.

In addition to being a fair judge, the use of Dinar also serves as a hedge against inflation, a medium of exchange, and an investment tool. Dinar has become a noteworthy form of investment, considering its continuous appreciation against the US dollar over the past 40 years.

### **The use of dinar and dirham during the time of Prophet Muhammad**

During the era of Prophet Muhammad, the prevailing currency was dinar and dirham. In addition to serving as a medium of exchange, dinar and dirham were used by Prophet Muhammad and his companions as the standard measurement in the laws of Sharia. In the prophetic era, the Arab society utilized dinar and dirham as a means of conducting trade transactions. The Quran explicitly mentions gold and silver as currency, symbolizing the wealth or possessions owned by individuals. The establishment of dinar and dirham as currency aligns with Surah Ali 'Imran, verse 75.

*"And among the People of the Scripture are those who, if you entrust them with a great amount of wealth, they will return it to you. And among them are those who, if you entrust them with a single dinar, they will not return it to you unless you keep demanding it from them. That is because they say, 'There is no blame upon us concerning the unlearned.' And they speak untruth about Allah while they know it."*

The verses indicate that dinar and dirham function as currency because they reflect value, both for dinar and dirham. Prophet Muhammad established the standard weights for the currency of dinar and dirham, which had been in use since the time of the Quraysh tribe, as mentioned in the hadith:

*"The weight is the weight of the people of Makkah, and the measure is the measure of the people of Madinah."* (Narrated by Abu Dawood).

During the lifetime of Prophet Muhammad, he never minted his own dinar and dirham. The Prophet even did not recommend any changes to the currency, which means that he and his companions accepted and used currencies from other countries. This demonstrates the open and egalitarian attitude of Prophet Muhammad in this regard. In the field of fiqh (Islamic jurisprudence), no specific provisions are found stating that currency must be made of gold and silver.

Prophet Muhammad allowed the use of currencies other than dinar and dirham as a medium or means of exchange in all types of transactions.

Scholars accept and agree with this, so there is no need to debate further about the use of currencies other than dinar and dirham, as permitted according to their views. Scholars focus more on practices related to dinar and dirham. For example, the current phenomenon of fluctuating gold and silver exchange rates. Imam Ghazali once criticized the practice in society at that time of mixing gold with other substances, resulting in impure gold being used as currency. This is in line with a hadith narrated by Abu Hurairah, where the Prophet said,

*"Gold for gold, silver for silver, equal in weight and measure."* (Narrated by Ahmad, Muslim, and Nasa'i).

Based on the consensus of scholars in interpreting this hadith, exchanging goods of the same kind but with different weights is prohibited. Furthermore, Islam connects Sharia laws with gold and silver, considering them as currency, the value or price of goods, and payment for services. Some related laws include the prohibition of hoarding gold and silver. This is because gold and silver are used to facilitate buying and selling transactions and other economic activities. Hoarding them as currency is considered forbidden. The second law is associating dinar and dirham with specific and unchanging laws. For example, when Islam mandated diyat (compensation payment in certain cases), the payment is determined using dinar and dirham, with specific amounts such as 1000 dinars and 12,000 dirhams.

In the context of fiqh, the research does not find any provisions requiring currency to be made of gold and silver<sup>20</sup>. Therefore, the use of currencies other than dinar and dirham is permitted in transactions. Scholars have accepted and agreed upon this, so there is no longer any debate regarding the use of currencies other than dinar and dirham, as permitted according to their views. The focus of scholars is more on practices related to dinar and dirham, such as the current phenomenon of fluctuating gold and silver exchange rates<sup>21</sup>. Imam Ghazali once criticized the practice in society at that time of mixing gold with other substances, resulting in impure gold being used as currency. In conclusion, Islam provides

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<sup>20</sup> D S Mamarasulovich and M Abdulkh, 'Importance and Role of Financing of Religious Educational Institutions in the Development of Religious Enlightenment', *SAARJ Journal on Banking* ..., 2021; Y Rohmana and S A Utami, 'Inflation Through the Transmission Of Islamic And Conventional Monetary Policy In Indonesia', *Amwaluna: Jurnal Ekonomi Dan* ..., 2023; M Gallien, 'Informal Institutions and the Regulation of Smuggling in North Africa', *Perspectives on Politics*, 2020; H Elkamel and M A Alghafef, 'Informational Efficiency of Parallel and Official Exchange Markets in Libya', *Journal of Economics and Financial* ... (asjp.cerist.dz, 2021).

<sup>21</sup> A Mikhaylov and others, 'Integrated Decision Recommendation System Using Iteration-Enhanced Collaborative Filtering, Golden Cut Bipolar for Analyzing the Risk-Based Oil Market ...', *Computational Economics* (Springer, 2022) <<https://doi.org/10.1007/s10614-022-10341-8>>; P Steinkeller, 'International Trade in Greater Mesopotamia during Late Pre-Sargonic Times', *Merchants, Measures and Money* (academia.edu, 2021); M R H Polas, M Muhibbullah, and ..., 'Is Bitcoin Halal or Haram in the Islamic Banking and Finance? An Overview', *Journal of Economics* ... (researchgate.net, 2020).

flexibility in the use of currency while still connecting it with enduring Sharia principles and values.

### **The relevance of dinar and dirham as an international currency**

The relevance of dinar and dirham as an international currency is currently very limited. Dinar and dirham refer to ancient currencies used during the height of the Islamic Caliphate in the 7th century AD <sup>22</sup>. At that time, dinar and dirham were the standard currencies within the Islamic Caliphate's jurisdiction and were widely used in international trade. However, with changes in politics, economics, and the development of the global financial system, the use of dinar and dirham as an international currency has diminished. Currently, the global financial system is based on fiat currencies, which are currencies whose values are regulated by governments or central banks <sup>23</sup>. Currencies such as the US dollar, euro, and Japanese yen have become dominant international currencies due to their stability, investment attractiveness, and widespread adoption in global transactions. Dinar and dirham do not possess the same appeal in this context <sup>24</sup>.

Furthermore, the relevance of dinar and dirham is limited due to financial infrastructure constraints <sup>25</sup>. To become a relevant international currency, strong financial infrastructure is required, including sophisticated banking systems, international financial institutions, and liquid financial markets. Dinar and dirham lack such infrastructure to support a significant international role. The current use of dinar and dirham is limited to certain Muslim communities that perceive symbolic value in using currencies with Islamic historical roots. However, this usage is confined to local scales or traditional trading activities and has no significant impact on the global financial market. Moreover, the fluctuation of dinar and dirham's value poses a constraint on their relevance as an international currency <sup>26</sup>. Dinar and dirham, being based on precious metals like gold and silver, can fluctuate with the prices of these metals in the global market. This renders dinar and dirham unstable as a reliable international currency for trade and investment.

In the current context, the major currencies used in international trade are the US dollar, euro, Japanese yen, and several other major currencies. Although dinar and dirham have played an important historical role in Islam and hold symbolic value for some communities, their relevance as a significant international currency is highly limited <sup>27</sup>. In addition to the aforementioned factors, political and economic factors also influence the relevance of dinar and dirham as an international currency. In the political context, the current global monetary system is based on the economic and political power of specific nations

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<sup>22</sup> Oberauer; Zahara.

<sup>23</sup> Suhanda and Firmansyah; Arif and Shabbir.

<sup>24</sup> Sadiq and Akbar.

<sup>25</sup> Khalidin.

<sup>26</sup> Sudiarti and Syarvina; Harun.

<sup>27</sup> I F Alamsyah and J Juliana, 'Transition to A True Currency: Impact of COVID-19 on The World Currency System', *Islamic Research*, 2021; Ahmad and Mustofa.

<sup>28</sup>. Currencies like the US dollar have become symbols of US economic and political strength, while the euro reflects the economic and political power of the European Union. The broad political and economic strength of these currencies gives them an advantage in international trade.

The process of globalization also affects the relevance of dinar and dirham as an international currency. In an increasingly interconnected era of trade, the existence of widely accepted international currencies facilitates cross-border transactions more efficiently <sup>29</sup>. The presence of currencies like the US dollar as a world reserve currency helps reduce currency fluctuation risks and facilitates international trade and investment <sup>30</sup>. In this regard, dinar and dirham do not have sufficient international coverage to compete with the current major currencies.

Finally, monetary policies and economic stability also play a significant role in the relevance of a currency as an international currency. Central banks have a significant role in regulating currency values and maintaining economic stability. Relevant international currencies are typically supported by credible monetary policies, high economic stability, and global market confidence. Dinar and dirham lack strong financial infrastructure and centralized monetary policies to achieve the required level of stability as an international currency. Overall, the relevance of dinar and dirham as an international currency is currently very limited. Factors such as the evolution of the global financial system, lack of financial infrastructure, limited usage, value fluctuations, political and economic roles, and monetary policies and economic stability affect the position of dinar and dirham as a relevant international currency. The major currencies currently used in international.

## CONCLUSION

This research highlights the use of Dinar-Dirham in the financial system during the time of Prophet Muhammad and explores its relevance as an international currency. In historical context, Dinar-Dirham played a significant role as a standard currency within the Islamic caliphate in the 7th century AD. However, in the present-day context, the relevance of Dinar-Dirham as an international currency is highly limited. In a global financial system dominated by fiat currencies, Dinar-Dirham lacks the same attractiveness in terms of value stability, investment appeal, and widespread adoption in international transactions. Limitations in financial infrastructure, limited usage within specific Muslim communities, fluctuating value based on metal prices, and the political

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<sup>28</sup> Rab; Maryanah and Mufliah.

<sup>29</sup> A Belabes, 'A New Foundation of the Phenomenon of Money through a Systemic Approach to Zakatable Assets', *AZKA International Journal of Zakat & Social* ..., 2022.

<sup>30</sup> J Baek, 'A New Look at the Oil Price-Exchange Rate Nexus: Asymmetric Evidence from Selected OPEC Member Countries', *Economic Analysis and Policy*, 2021; M Sholihin, 'A Set Aspect Of Paper Money: A Reading on Ahmad Khatib Al-Minangkabawi's Thought', *Indonesian Journal of Interdisciplinary Islamic Studies*, 2021.

and economic support for major currencies today all contribute to the limited relevance of Dinar-Dirham as an international currency.

Although Dinar-Dirham holds symbolic value for some Muslim communities and has historical significance in Islam, in the current global context, major currencies such as the US dollar, euro, and Japanese yen remain the dominant international currencies. This research concludes that while Dinar-Dirham has a rich historical and cultural heritage, its significance as a significant international currency today is highly limited. Further research is needed to examine the economic impact of using Dinar-Dirham in the context of international trade. This could include analyzing the potential benefits or drawbacks of using Dinar-Dirham in bilateral or multilateral trade and the implications for economic stability and monetary policies.

#### **Author's Contribution**

Muhammad Syahrul Hidayat, Didik Supardana Setia Aksana: Contribute to formulating research ideas, collecting data, processing data, and interpreting data

Nurul Mazidah, Nurhayati: Contributing to writing systematics, researchmethods, analyzing interpretation results

Iskandar Ritonga: Contributed to compiling a literature review

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The author declares that there is no conflict of interest.

#### **Ethical Approval**

Ethical approval No patient-identifying parts in this paper were used or known to the authors. Therefore, no ethical approval was requested.

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