

FATAWA ON CURRENCY AND INFLATION

I. IS INTEREST A COMPENSATION FOR INFLATION?

SUBJECT: Effect of inflation and Riba

Date: 12/8/99

To: Zeeshan

CC: Dr. S

Dear Br. Zeeshan

Assalamu Alaikum,

Your letter to Br. Dr. S. was forwarded to me to make a reply.

Inflation / deflation may happen even with metallic currency not only with paper money.

It is more with paper because it is very easy for the government to produce it.

In Islam, governments are called upon to maintain the value of money as constant as humanly possible. Even with that, still inflation may happen.

In the final analysis there is no way to protect oneself against inflation. Interest is definitely not a protection as very well observed in the economic history of any country with high inflation. The only way is to beat inflation with higher-return investment. In Islam investment is defined as not to include interest (Riba) producing instruments.

Inflation took place many times in the Islamic history, sometimes for economic reasons and sometimes by mal-doing on the part of the government.

The crux of the problem with inflation is that it affects people in different ways according to their respective pattern of consumption and structure of asset holdings. Long-term financial obligations are the worst messy when long term inflation happens. The ultimate solution is a judiciary arbitration that distributes the burden of inflation fairly between the debtor and creditor.

Monzer Kahf

SUBJECT: Effect of inflation on long term debts

From: dialogue@islam-online.net

Date: 2/28/2001

Name of Questioner Khurram

Gender Male

Age 31-45

Education Post Graduate

Date Submitted 2/20/2001

Email User

Ref. No. 9UWM1T

Question:

Assalamu Alaikum. I was married in November, 1995, and the dower that was agreed upon was Pakistani Rupees 100,000 in current currency (Muajjal). We now live in the US, and at this time, I would like to pay my wife that amount in US dollars. However, I am confused about the "current currency" part of it. According to the current exchange rate, Rs.100,000 = US\$ 1670. But I believe that in November 1995 the exchange rate was such that Rs. 100,000 = U.S.\$2860. I am not sure which of these is the right amount.

Perhaps I am supposed to account for the inflation rate as well (For example, if Rs. 100,000 back then have the same purchasing power as Rs. 150,000 in current times, then I am supposed to pay her Rs. 150,000 converted into U.S. dollars at the current rate of about 60 rupees to the dollar).

My Answer:

Dear Br. Khurram

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

The issue of the effect of inflation on debts and deferred financial obligations is very controversial and there are pros and cons on the two sides. The OIC Fiqh Academy could not reach any final decision although it's been discussing it over five or six of its annual meetings.

In brief, any increment in the amount of a debt due to inflation is tantamount to a Riba increment and sometimes a dealer in Riba may prefer his/her debt to be indexed with inflation rather than be paid the prevailing interest rate that may be lower (which makes the real interest rate, interest rate - rate of inflation, negative).

On the other hand, a long term debt poses a real dilemma in case of inflation. The Mahr in your examples lost fifty percent of its value in just five years, some currencies are even more horrible.

Further we have a very important point the Prophet, pbuh, made that relates to courteous and generous repayment of any future financial commitment. It requires paying even more than the original value of the debt.

Summary: my opinion is that although she lost half the value of her Muajjal Mahr, legally she cannot ask for more than the present dollar value of the Rp 100,000 at the current rate of exchange of say 60. BUT I suggest to you to pay her the hundred Rupees at the rage of say 38 that was prevailing in 1995 and even give her more, if you were to get married in America in 1995, you would have paid \$10,000 as Mahr not the hundred thousand Rupees of Pakistan. And it is good to pay your Muajjal part of the Mahr. I personally did that too.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

SUBJECT: Is the prohibition of Riba affected by inflation

From: dialogue@islam-online.net

Sent: April 16, 2002

Name of Questioner rizwan

Gender Male

Age 21-30

Education Graduate

Date Submitted 4/2/2002

Email

country of Origin Pakistan

User Ref. No. M1R9NX

country of Res. Pakistan

Question

My question to you is related to Riba. Some people claim that Islam has prohibited Riba not interest. They differentiate it buy saying that interest is charged on normal market and

inflation rate on the other hand what Islam has prohibited is exploitation which is higher interest or (usury). Please guide me through the proper concept of Islam regarding Riba

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. rizwan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

What is prohibited is any increment in the amount of loan or any addition to it in kind or in other commodity or currency. Verse 279 Of Sura 2 clearly mention that any thing above the principal is Riba, regardless of its name and regardless of any justification given, inflation, market or otherwise. Interest, as known in banks' transactions is the same Riba that is prohibited in the Qur'an. The OIC Fiqh Academy in Jeddah and the Research Academy of al Azhar both resolved to this exactly. The idea that you were told that exploitation is what is prohibited is correct but it is misplaced. The Qur'an considers unjust each and every amount above the principal. In other words, any amount, whether to market or not, is exploitative. Remember, the market of money lenders in rural areas in India and Pakistan may be 70%, it is the market! There a known rule in Shari'ah that defines it clearly: any benefit derived from a loan is Riba. Certainly this rule is derived from Verse 2: 279.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

SUBJECT: Is interest a compensation of inflation?

From: dialogue@islam-online.net

Sent: May 23, 2002

Name of Questioner Ahmed

Gender Male

Age 21-30

Education Post Graduate

Date Submitted 4/29/2002

Email

country of Origin Egypt

User Ref. No. CV8HH9

country of Res. Egypt

Question

Assalamu Alaykum, My question is regarding "REBA" and bank interest "fawayed". I heard these following opinions and would like to know the Islam opinion regarding them. Mainly they are trying to prove that Bank interest are not the "REBA" mentioned in Holly Koran. 1. The bank interest is a compensation for the inflation rates, e.g. Egypt interest rate is more than 10 % for Egyptian pounds while it's some 2 ~ 3 % for USD because the inflation in Egyptian pound is much higher than the American Dollar. Another evident comes from Canada where the interest rate is almost 0 % because of the economy stability there. Also if we save our financial assets in the form of Gold for example instead of bank notes, we will not be subject inflation as much as in bank notes case. 2. If the bank interest is not fixed or mentioned in advance, in this case - is it

REBA? e.g. For saving account type, you're able to withdraw your money at any time and still get some interest every 3 months, the client does not know what percentage of interest s/he will receive at the end of each 3 months "The bank does not say it's 2 % for example". 3. In Ayyah in Holly Koran, Allah says in describing "REBA" that it's times of times "Ad3afan moda3afah", for the interest rate this is not the case, it is usually less than 10 %, is that interest the REBA meant in Holly Koran? Please comment on that, wa jazakum ALLAH khayran for helping us in showing the right/Halal way. - Ahmed
Notes: I have already reviewed the Fatwa bank, unfortunately it does not cover my questions.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Ahmed

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

The three points you raise are ages old and can be answered in the existing literature on the issue, a fatwa reply, short the way it should be, does not give full justice to the answer. Please consult contemporary books on the prohibition of Riba. In brief:

1- Riba is not a compensation of inflation, and none of them is a cause of the other. They exist independently and for different reasons. This is the fact that is supported by statistical data both in the past and today. Add to it: interest is very often higher than inflation and sometimes less, it is not to a measure of inflation; inflation is only known after the event (ex post as they say) interest is known ex ante; when gold was the currency lending was also done for interest; changes in interest are very often done as a policy tool in order to introduce desired effects in the economy as done in Japan Canada and recently the USA. Finally, in all banking laws, interest is defined as an increment in a loan, since a deposit is also defined as a loan on the bank, and this is exactly the definition of Riba in the Qur'an (see verse 2: 279).

2- The verse 3:130 you mentioned about multiplied many folds is descriptive of the Riba not of a kind of Riba that is prohibited. Such a thing occurred in the Qur'an to point out how bad it is, there is a similar verse that says: do not force your female slave for prostitution if they like to be pure. This doesn't mean you can force if they do not want to be pure, if rather means see how bad it is forcing them, your are forcing them even at a time they like to be pure. The verse 2:279 mentions clearly that any increment above the principal is injustice.

3- An increment doesn't have to be fixed in advance to be prohibited as the Qur'an mentions "you get your principal only." Therefore, variability is not a condition in Riba. What matters is that it is a contractual increment in a loan. By the way the example you gave is not variability because bank interest is usually fixed as an increment per day per hundred. The example of variability is some government bonds that promises an increment but says that the rate of the increment shall be determined by the authority at the end of the year to match the rate of, say, growth of the economy or profitability of public projects or average rate of profit in certain businesses. This is also Riba as defined in the Qur'an.

Wa Allahu A'lam
Wassalam
Sincerely,
Dr. Monzer Kahf

SUBJECT: Getting interest on bank deposits because of decline in value of money

From: dialogue@islam-online.net

Sent: June 19, 2002

Name of Questioner Brahim

Gender Male

Age 31-45

Education Post Graduate

Date Submitted 6/5/2002

Email

country of Origin Morocco

User Ref. No. IUCXM2

country of Res. Morocco

Question

Assalamu Alaykum wa Rahmatu Allah: I would like to ask you (Jazakum Allah khayran) about banking transactions and the system of interest. I'm placing some money in a deposit account, because I think that it is the safest way of keeping money and getting some returns on it, at least to compensate for the decline in monetary value and I also said to convince myself (after all banks are not poor) . Does this kind of practice look convincing according to Islam? Please give me a firm answer. Thank you

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Brahim

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

The firm answer is: NO. bank deposits generate interest, interest is the same Riba that is prohibited in the Qur'an with a threat of a war declared from God and His Messenger on those who do not quit even the remnant of Riba.

Banks are not poor, and one of the most famous Riba dealers at the time of revelation just before the prohibition of Riba was al Abbas the uncle of the Prophet, pbuh. Al Abbas was a merchant and he used to borrow money for his business on Riba basis and he used to lend to other merchants too. In fact, in a little booklet on this issue the late Shaikh Muhammad Abu Zahra (died 1974) explained that the prohibition of Riba was really an introduction of a different system in financing businesses and trade.

Interest is a prohibited income. In fact, it is not an income because the interest generating deposit contract is considered invalid from the Shari'ah point of view. Unfortunately there are no Islamic banks in Morocco and if you don't have to deal with interest based banks you better not. Certainly there is no necessity for such deposits even the protection of the loss of value of money as a result of inflation. because there are other means for such protection, mainly investment in real assets, etc.

Wa Allahu A'lam
Wassalam
Sincerely,

Dr. Monzer Kahf

SUBJECT: Is it permitted to take interest on deposits because there is devaluation?

From: dialogue@islam-online.net

Sent: March 06, 2003

Name of Questioner Qureshi

Gender Male

Age Above 60

Education

Date Submitted 2/27/2003

Email

country of Origin

User Ref. No. RU91K5

country of Residence

Question

Assalamu Alaikum: RIBA: Al-Azhar Fatawa say modern fixed bank interest is not Rib-aj-jahliya. Here in Pakistan the devaluation is about 18%p.a banks pay only 12% which they call profit. We officially have no Riba bank accounts are profit/loss accounts but in reality its interest as offered by any other bank. I don't have a job right now and I am unable to enter a business and I need constant income my savings are eroding as i am living on my savings for the past 13 months. Please suggest. Is this PROFIT Riba? Can I take this profit for a certain period of time till I'm able to earn some money through a job or a business?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Qureshi

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I don't want to dwell on the new Fatwa of Azhar, it is political and instigated by the Shaikh of al Azhar who expressed the same Fatwa before and was banned from the OIC Fiqh Academy in 1995 because of it. This Fatwa has no base in Shari'ah on two grounds: 1-the contract of bank deposits is a loan contract , it is not investment. Shari'ah defines any increment in a loan as Riba and Riba al Jahiliyyah as prohibited in the Qur'an itself. 2- the conventional banks' activities is mainly to give loans to businesses on the basis of interest, hence depositing with a conventional bank is tantamount to giving it money to give interest-based loans and the source of the banks income is from interest

Your case is very typical my dear brother. What conventional banks in Pakistan give on deposits is interest even if they call it profit. Pakistan has several private Islamic banks you can deposit in them what they give to depositors is a share of profit and they give to businesses on the basis of Shari'ah-compatible financing contracts. You can deposit in these banks or make a business with a friend or relative.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

II. ISSUANCE OF PAPER MONEY AND RATES OF EXCHANGE

SUBJECT: Issuance of paper currency

From: dialogue@islam-online.net

Date: 4/19/2001

Name of Questioner Mitrim Gender Male Age 21-30

Education Diploma Date Submitted 4/11/2001 Email

country of Origin Malaysia User Ref. No. Q33THQ country of Res. Malaysia

Question:

What is Islamic view of Paper-money and fluctuation in the currency exchange rates?

My Answer:

Dear Br. Mitrim

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

In brief Br., paper money is permitted to be issued by Islamic governments. It serves all the functions of metal currency so it is currency. Hence, It is treated in Shari'ah like gold and silver that used to be in the past. An Islamic government is required to maintain monetary stability so that the value of its currency does not fade with time because this hurts many people, especially those whose income and wealth are maintained in money units. This means avoiding inflation.

Fluctuations in the rate of exchange between two currencies are caused by several factors, one of them is the domestic value of a currency, but others relate to the international economies that are not controlled by a national government. You just have to live with them until sufficient wisdom engulfs the international community to avoid them.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

III. DELAY OF PAYMENT, WHO CARRIES THE EFFECT OF INFLATION?

SUBJECT: Delay of payment of debts and inflation

From: dialogue@islam-online.net

date: 5/10/2001

Name of Questioner Farooq Gender Male Age 31-45

Education Post Graduate Date Submitted 4/27/2001 Email

Question:

Assalamu Alaikum: I live in the UAE for the last seven years. Four years back, a very close relative of mine took a loan from me - essentially my 3 year savings with a promise to return in a month. The loan is yet to be returned and I am hit by exchange rate depreciation that Pakistan Rupee is suffering. Essentially I do not have this major amount of cash available to me for the last 4 years and the equivalent Dirhams that I might get if the loan is returned today, would be around 40% less than the Dirhams passed on four years back to this relative of mine. At the time of giving the loan, this long delay was not anticipated and therefore there was no discussion of exchange rate fluctuations. It might be worth mentioning that due to delay in receipt of these funds I had to give up major investments/personal business plans for myself and family. Can I ask my relative when I am getting the money back to repay me Dirham equivalent in Pakistan RS?? Was-salam.

My Answer:

Dear Br. Farooq

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

This is a typical case of indexation. The Fatwa of the OIC Fiqh Academy is that if you gave him Rupees you can only take back Rupees, in the same amount. If you gave him Dirham, you take back Dirham.

When you gave the loan you meant to sacrifice the use of that money for a short period.

There is sense now is talking about your sacrifice of investment return,

However, if asked for returning the loan a few days or weeks after you gave it, and your relative was able to pay back at that time and he delayed payment out of ill will, he becomes liable for any ACTUAL HARM born by you as a result of that unjustified delay.

If you were holding your money in Pakistan in Rupees anyway and you lent him from that money, you did not lose by the difference in exchange. It is not the same as if you sent him the money especially for UAE and you were always holding your money in Dirhams in the UAE.

On the other hand, it is always good and rewarded on the borrower's part to compensate you for that loss, even to give you more, as long as that was not a condition. In this case this is called goodness in repayment, it is recommended by the Prophet, pbuh,

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Effect of inflation on long term debts

From: Islam on line

Sent: June 15, 2002

Name of Questioner rizwan

Gender Male

Age 21-30

Education Graduate

Date Submitted 5/16/2002

Email

Question

My question is regarding Riba. A very interesting case came to my knowledge I will tell you about that and ask for your guidance " it is about a marriage which took place in Karachi in 1984. The man who was arranging for his daughter's marriage asked his sister to lend her money for buying gold. The sister took the man to the gold shop and bought gold worth of 22000 Pak. Rs. In 1999 which is 15 years after the sister gave her money for gold the sister asked her brother to return the money. The brother said that he will pay 22000 thousand Rs. as the gold cost 22000 in 1984 but the sister said that I don't want 22000 but I want the same amount of gold which they bought in 1984. Now the problem is that the same amount of gold today cost up to 60000 which is 38000 higher than the original amount, but the sister insists that from 22000 she will get nothing. So the question is that how much the brother should pay to her sister. One very important thing is that at the beginning of the deal there was no contract since the deal was between the brothers and sisters. so how should we deal with this issue

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. rizwan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Let us distinguish between two things. The contractual relation and goodness in repayment.

Contracts don't have to be written, between brothers/sister and strangers. Contracts may be verbal and/or written but a contract is a definite relationship between its parties. A loan is a contract, it is due for repayment at exactly the same amount and kind the way it was contracted (given). If the contract was a loan of certain quantity of gold, then be it, repayment is the same quantity of gold because it was contracted and given in gold. If it was contracted in Pakistani Rupees it is due for repayment in Pakistani rupees, and if it is kilos of onion then kilos of onion too. The Price of the item it is contracted in is immaterial in loans because in lending you are always required to return the same quantity of the same item. Was the contract in Rupees? From what you described it seemed so because throughout the fifteen years every body knew that she gave him a loan of 22000 Rupees, not so many grams of gold.

Two points may arise here. 1) the item exists no more and 2) there is a huge price difference between the time of giving a loan and the time of repayment. One) if the item given as a loan does not exist at all in the market e.g., a currency that is annulled by the government like for the Majidi of the Ottoman Empire or old French Franc. Payment in this case must be made in accordance to value of that item at the time it ceased from existence, because that was the last chance a loan can be paid back (according to Shari'ah a loan is an act of goodness and consequently it can be called back at any time, so the lender could have called it back at that moment) and there are views that argue for the time the loan is given and the time the loan is repaid (notice the last opinion is

contradictory because the assumption is that at the time of repayment the item does not exist, how can it have a value?).

Two) if there is a huge price difference, there is really no agreement on a solution and the matter was discussed for no avail in the OIC Fiqh Academy for several years. The principle remains that repayment is due in the same quantity of the same item as much as it makes sense, even with differences in prices. But when the value difference is huge, the best opinion is that suggested by Imam Ibn Abidin in his book al Hashyah: compromise and reconciliation even if it were to be imposed by the court because there are many personal circumstance of the two parties that affect the repayment.

Lastly, goodness at the time of payment is outside the obligations of the contractual relationship, and it is recommended by the Prophet Muhammad, pbuh. It implies giving some extra at the time of repayment. Goodness at the time of repayment it in this case to give at least the price of the same amount of gold, Rps 60000, or even more in this case if it is affordable by the brother.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

IV. INFLATION IN THE ISLAMIC SYSTEM

SUBJECT: Can inflation happen under an Islamic system?

From: dialogue@islam-online.net

Sent: April 18, 2002

Name of Questioner mir

Gender Male

Age 31-45

Education Post Graduate

Date Submitted 4/6/2002

Email

country of Origin Pakistan

User Ref. No. ZEQAB5

country of Res. Pakistan

Question

Assalamu Alaikum my question is about interest (Riba). Suppose if I give loan of some amount to some one, who returns the same amount of money in two years or more, now the amount I gave him has now depreciated in value, so in effect I am actually getting less money as compared to the money I gave him. Had I used that money in my business I would have got some profit. Does Islamic Shari'ah recognize this or this is a western way of thinking. Your answer will be greatly appreciated. Regards

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. mir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Inflation may happen in all systems. It is not exclusive to the paper currency money. It happened at the time of Omar in Madinah with gold and silver as currencies. When inflation happens, all owners of assets that have money denomination, including creditors, are hurt. Unfortunately salaried persons are usually hurt more; so many debtors are also hurt from other sides. Inflation may be a result of imprudent government policies, or of certain economic and natural reasons.

Interest is never the compensation of inflation and there is no positive or causative relation between interest and inflation. Indexation of debts to the rate of inflation is suggested as a remedy for the effects of inflation on creditors, but economic experience of many countries indicated more harm than benefit. And if any one is to compensate creditors, it must be the one who caused inflation not the debtors who are usually also hurt by it. In other word, it is extremely difficult to reach justice through any sweeping or general measures; you need a solution for each case, each debt and each person affected by inflation. This issue has been on the table of the OIC Fiqh Academy for years, and it is don reach any solution other than dealing with each case alone.

At time of inflation, people are advised to give loans in more stable things Gold, platinum, Rials, Dollars. The problem is that to avoid Riba the loan must actually be in those things. It cannot be the value of these things and then the lender gives local currency. Any conditional increment above the amount of a loan is Riba, forbidden, even if the condition is such that you give me an extra the amount of which is left variable to be determined according to a formula or a rate in the future.

Wa Allahu A'lam
Wassalam
Sincerely,
Dr. Monzer Kahf

V. INDEXATION AND THE PROHIBITION OF RIBA

SUBJECT: Indexation and the prohibition of Riba

From: dialogue@islam-online.net

Sent: June 10, 2002

Name of Questioner Nabeil

Gender Male

Age 21-30

Education Post Graduate

Date Submitted 5/22/2002

Email

country of Origin Yemen

User Ref. No. XC45E9

country of Res. U K

Question

Assalamu Alaikum and May Allah reward you greatly for this blessed service. This question consists of two parts. Nearly 3 years ago I took out a student loan. The only interest on this loan is that corresponding to the rate of inflation (i.e. the natural increase/decrease in the value of currency). (i) Was this loan Halal/Haram? (ii) Should I repay this loan as soon as possible? Why I ask this 2nd question is because the Student Loan Company is lenient in how it wants repayments to be made. They take a small

amount from your wages (if they are over £10,000 pa) every so often. One can of course repay all the amount of loan at any time. However, if you die or reach the age of 65 before your repayments have been completed then the loan is "forgiven"!

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nabeil

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Interest is forbidden whether it is determined in the contract or later and regardless of inflation. However, there is a minority of Ulama, though this goes against the resolution of the Islamic Fiqh Academy of the OIC (Organization of Islamic Conference) in Jeddah, who argue that indexation is permissible. The link with inflation makes it indexation.

Accordingly my answer is that such a loan contract is prohibited, but there are people who say it is not, I wouldn't do it and wouldn't like you to do it. I argue that at many times most banks wish to have their interest linked to inflation because it happens that interest rates may go below inflation rates.

For the second question I suggest that you pay it as soon as you can because it is interest-based and especially that you are not planning on dying soon, are you?

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

SUBJECT: Indexation by government regulation

From: dialogue@islam-online.net

Sent: August 14, 2002

Name of Questioner ZA

Gender

Age

Education

Date Submitted 7/18/2002

Email

country of Origin Pakistan

User Ref. No. 6FT7HR

country of Res. Pakistan

Question

The inflation rate in Pakistan is fast increasing. Keeping this in mind if we deposit some amount of money in our bank, after 5-10 years it will be of no value! The bank continues to add some profit to our money. So in this case will it be Sood (interest)?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. ZA

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If what is added to your account is in implementation of a government regulation to

compensate for inflation for all debts, i.e. what is called indexation, this addition is not forbidden and you may take it. Otherwise it is Riba (interest) and it is Haram whether the rate of inflation is greater or smaller. The Reason is that indexation is controversial, and some scholars argue for its permissibility and in controversial matter we don't haste to prohibition. Interest is not controversial, it is forbidden. And it is scientifically incorrect to claim that interest is in compensation for inflation. Interest is the price of money whether there is inflation or not.

Wa Allahu A'lam
Wa Alhamdu li Allahi Rabbi al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf

SUBJECT: Inflation, Indexation and Riba

From: dialogue@islam-online.net
Sent: February 24, 2003
Name of Questioner Ouaich Gender Male Age 21-30
Education Graduate Date Submitted 2/2/2003 Email
country of Origin Belgium User Ref. No. BJ91CZ country of Res. Belgium

Question

Assalamou aleikoum wa rahmatullah wa barkatouh. Bismillah Arrahman Arrahim. As far as I understand, Riba or usury is forbidden, except in the cases you mentioned several items when talking about the specific Fatwa of the European Council. But what does usury mean really? If tomorrow I put some money on an Islamic bank account, what should I get when I need it in 12 months for example? Is it allowed to take into account the fact that money value changes with time (to be linked with the purchasing power), would a compensation in cash be considered as Riba and though forbidden?
Jazakoumoullah wa khairan

My Answer:

Bismi Allah al Rahman al Rahim
Al Hamdu li Allah Rabb al 'Alamin
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in
Dear Br. Ouaich Rachid
Assalamu Alaykum wa Rahmatullahi wa Barakatuh.
I can understand the confusion one may collect from reading Fiqh books and many of the contemporary writings on the subject. Here is an attempt to clear all the dust in a brief way.
In the Arabic language Riba is an increment, any increment. In the Qur'an, Sayings of the Prophet as well as in Fiqh, Riba is obviously used in accordance with the Arabic language to mean an increment.
when it comes to economic and financial transactions, the use of the term Riba in the Qur'an has always been attached with the article "al". This means that the reference is to

something that is already known to the persons addressed with the Qur'anic statements or verses. the definition of "al Riba", as used in the Qur'an is: a stipulated (conditioned) time-related increment in a debt contract. This is equal to what we know as "interest" or "bank interest." The Fuqaha usually call it the "Qur'anic [prohibited] Riba" they say "Riba al Qur'an" You notice that this applies to any loan (a loan creates a debt) between any two parties and to the change of due date of an already existing debt. There is no difference, from the point of view of the prohibition, between large and small increments, percentage or lump sum, pre-determined increment or an increment that will be determined later, consumers' loans or producers' loans, whether the payer is the rich to the poor, the poor to the rich, Muslim to non-Muslim, non-Muslim to Muslim, governments to individuals or vice versa. The objective of the loan does not affect the prohibition too; and the prohibition remains as it is even if there is no condition in the contract but it has become a custom, so that the parties know it and expect it. We still need to distinguish between Riba and profit (investment generates profits) because the latter is not prohibited. This distinction is not only by name as names do not change reality. in lending you give a known quantity of some item (money or corn) and the debtor guarantees to return to you equal quantity of the same item on the due date; any increment is Riba. In investment, through agents or partner, you delegate the authority to take decision on your property (say the same amount of money) while you remain the owner, to an agent or a partner; the agent or partner takes daily decision on your behalf and you own your property after the decisions the same as you owned it before them. if the decision maker is an agent you pay her the contracted work compensation (salary) regardless of the results of her action. and if the decision maker is a partner you pay him a percentage of any increments that arise as a result of her decisions. The latter kind of partnership is called Mudarabah and this is the way Islamic Banks deal with their investment depositors. That shows you why the distribution of Islamic banks to investment deposits is permissible while the interest paid on deposits by conventional banks is forbidden.

In the Sayings and in Fiqh, there is another kind of Riba (increment) that is also prohibited. This is increments in certain forms of sale contracts. When you sell currencies (notice at the time of the prophet, pbuh, gold and silver were the currencies), gold, silver, and certain items (wheat, barley, raising and date as mentioned in the Hadith) that are the closest to what we call in economics today "cash crops" delivery of of the item and the price must be immediate, i.e., at the time of the contract and if the sale is within the same item, e.g., gold for gold, or date for date, quantity must always be the same. Explanation of these prohibition needs another sitting! This is called in Fiqh Riba of sales "Riba al buyu" the basic application of it in our days is in currency exchange, where foreword is prohibited.

Finally, you reference to the purchasing power. Interest is not a compensation of loss in purchasing power. this is a known historical, statistical and scientific fact. Such a compensation is sought in indexation of debts and other future commitments such as wages and salaries. Interest is essentially a payment for the lost opportunity or for the use of your money by others. this is prohibited.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam
Sincerely,
Dr. Monzer Kahf

VI. ESTIMATION OF THE EQUIVALENT OF THE MAHR AT THE TIME OF THE PROPHET, pbuh

SUBJECT: Inflation and the Mahr at the time of the Prophet, pbuh

From: dialogue@islam-online.net

Sent: Thursday, June 20, 2002 7:28 AM

| | | | | | |
|--------------------|---------------|----------------|----------|-----------------|-------|
| Name of Questioner | Amina | Gender | Female | Age | 21-30 |
| Education | | Date Submitted | 6/4/2002 | Email | |
| country of Origin | United States | User Ref. No. | HGXVRK | country of Res. | U S |

Question

My sister is getting married and wants to ask for the Sunnah Mahr. We know it is 400 Dinar, which we are told is the same as \$300, but obviously \$300 was worth a lot more in the time of the Prophet (SWS) than today. I was able to find out the relative value of \$300 in 1789 which would be worth \$5999 today. How can I find out the relative value of the Sunnah Mahr to the value of money today?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Amina

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There is no Sunnah amount of Mahr. The Qur'an (4: 20) refers to a large pile as a possible Mahr. We have in the Sunnah the Mahr of the Prophet pbuh, in his marriages and we have Mahr he given by his companions. In Most of his marriages, the Mahr he, pbuh, gave was 400 Dirham (not Dinar, the Dirham is from silver and the equation at His time was 20 Dirham = 1 Dinar in value) the only exception was the Mahr for the Mother of believers, Habibah bint Abu Sufian. Her mahr was very large (I think it was some 4000 Dinar, but I am not sure!) her marriage contract was done by proxy on the Prophet's behalf by the King of Ethiopia and it was a "King's" Mahr that was donated by the King. The Prophet also had more that one marriage done by His companions with his approval on Mahr that was much smaller than 400 Dirham. Ther is a report about Abd al Rahman bin Awf that he got married for the weight of a date seed of gold (a fraction of one Dinar). Another companion paid an iron ring as a Mahr. Fatimah, May God be Pleased with Her, was married to Ali for a Mahr of 480 Dirham.

Finally we have several reports about daily wages and prices of consumption goods at the time of the Prophet, pbuh. Together, the give an idea that a day's work (obviously unskilled) used to be worth of 1 (one) Dirham, and the cost meat and flour of one decent

meal for a family of 4-5 mix of adult and children was about a dirham too. You can make your calculation now. The Mahr of most wives of the Prophet, pbuh, was the equivalent of 400 days work/meals and the Mahr of Umm Habibah (one of his wives) was four hundred golden Dinar (then = 4000 Dirham. It was paid by the king of Ethiopia as his gift to the Prophet, pbuh). It equals 4000 days work/meals.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf
