

FATAWA INFLATION INDEXATION 2000-2021

FATAWA INFLATION INDEXATION 2019-2021

From: Hafsa

Sent: Sunday, January 10, 2021

Subject: Loan indexation

Question:

Dear Prof.,

I hope you are doing good.

I would like to ask your opinion about inflation indexation on loans.

Hafsa

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Prof. Hafsa

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The OIC Fiqh Academy ruled that loans can only be paid back in the number\amount of the currency they are given in. Any indexation of loans amounts to Riba.

Of course, one may talk about a special case where the currency almost completely loses its value, then individual reconciliations should be adopted, not even across the board rule, depending on individual situations.

Indexation of Salaries can be done because Ijarah may be considered as a series of sequential contracts repeated or renewed every period.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Best Regards

Dr. Monzer Kahf

Professor, Islamic Finance & Economics

www.kahf.net <<http://www.kahf.net/>> ; www.kahf.com/blog <<http://www.kahf.com/blog>>

FATAWA INFLATION INDEXATION 2000-2017

FATAWA INFLATION INDEXATION 2016

From: Tarek

Sent: Saturday, September 03, 2016

Subject: Inflation indexed loans, can interest be to the amount of inflation?

Jazaka Allah Khair for your answer Dr. Kahf, I appreciate the time you have taken in this.

I have one final question: Can Muslims accept or give out inflation/deflation-indexed loans? For example in Japan where there is slight deflation the monetary amount of the loan would be slightly decreased over the life of the loan, whereas in the US where there is slight inflation the monetary amount would slightly increase over the life of the loan. In both of these cases the *value* of the loan would remain the same (because it is indexed) though the monetary amount would vary slightly over time, to account for price instability. In this way neither debtor nor creditor would lose wealth over time.

Is this within the bounds of Shari'ah?

Jazaka Allah Khair

Tarek

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tarek

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh,

A loan is an act to help a person and it must be returned only in exact amount and exact object. So if you borrow ten eggs of medium size you return 10 eggs medium size, there must be no condition to return 11 if the price of eggs goes down 10%. This is the normal human law and this is strictly the Shari'ah. This means that indexed loans are not permissible. Also indexed debts are not acceptable too. A debt is paid back in same item and same amount, whether in cash or in kind. Inflation is not caused by the borrower why he should bear its consequences?

Besides, please notice that while inflation is a reality, so is deflation their measures are always approximations. All price indices are simply approximation and vary sometimes greatly, one from the other. There is no exact measure for inflation simply because prices do not go up or down at same proportion and this is exactly the crux of the dilemma of inflation, it hurts some and benefits some depending on what assets they hold and what incomes they receive.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

On 8/31/16, Monzer Kahf <monzer@kahf.com> wrote:

From: Tarek

Sent: Monday, August 29, 2016

Salaam Alaykum Dr. Kahf,

I wanted to ask you a question from the night of your lecture at the Kitchener Masjid earlier this month. You mentioned that inflation has always been with us, and that economists even say that a small amount of it is healthy. Yet inflation - especially when it is government orchestrated - erodes the wealth of people, especially the savings of the elderly who are in retirement. Can banks give Muslims a nominal amount of 'interest' up to the inflation rate (CPI) so that their wealth is maintained and not eroded? Would this be considered Riba? Has this question ever been discussed by scholars?

Jazaka Allah Khair

Tarek

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Tarek

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The answer is NO, no increment can be given, according to Shari'ah, on a loan. also this has been discussed hundreds of times.

As you said, inflation is mostly caused by governments, then why the debtor should pay for it? And any such payment by banks is Riba not inflation compensation. Government should and may compensate for inflation but not the debtor. Besides the old people on retirement have other options such as real estates, shares, not only loans to banks.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Valentino

Location: Iran

Question: High prices in markets?

Sent: February 12, 2016

I saw this cool show called hazrat Umar/Omar series and in the show he said that it is illegal (haram) to sell items with the price too high. Is that true? Like what the malls are doing making things expensive are they going against the fairness of Allah and is it haram? Like does the price must not be too expensive?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Valentino

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

The price must not be high relative to the market. High/low pricing is in Shari'ah considered in relation to other sellers in the market not to cost on producing/acquiring the item. Our Islamic economic system is based on the market and does not accept charging high prices relative to the prevailing market price. Excessive raise in any price relative to market price is called Ghabn and it is Haram and may entail voiding the sale in a court.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Sharafe

Sent: Tuesday, February 09, 2016

Question: Exchange Rate and Loans

As-salamu Alaikum wa Rahmatullah wa Barakatuh Dr. Kahf,

I pray you and yours are excellent.

In giving international loans we face the issue of exchange rates.

In an extreme example, let us say that we (in Canada) lend someone (in America) \$10,000 CDN (and the contract is in Canadian Dollars) and due to exchange rate it is exactly \$10,000 USD, then upon payback, the exchange rate changes, such that the lender must earn \$20,000 USD to pay back the \$10,000 CDN; or the opposite, they earn \$5,000 USD to pay back \$10,000 CDN - in this scenario, the borrower takes all the risk or reward of the exchange rate.

If the funds were loaned in USD, the lender (Iana - or the donors of Iana) would take all the risk or reward of the exchange rate.

The question is: what is the best? Do we place all the risk/reward on the borrower, on Iana, or do we try to find a median (that we somehow try to meet half-way)?

Bismillah. Barak Allah feekum,

Sharafe

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rabb al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Sharafe,

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

This is an old ever new issue that has no solution in the final analysis.

Someone has to take the risk! the rule that is approved by a decision of the OIC Fiqh Academy after discussion in two workshops over a period of two or three years is: payment must be in the currency of the contract and the latter must be in the currency actually given. You cannot give USD and say in the contract this is the value of so much gram of gold or C\$. if you give USD you should mention in the contract the same and payment will be the same. Disastrous situations (a currency lost most of its value like Iraqi dinar or Syrian lira) are solved by arbitrations and courts.

Wa Allahu A'lam

Wa Alhamdu Lillahi Rabb al Alamin

Wassalam

Prof. Dr. Monzer Kahf

FATAWA INFLATION 2009

Subject: Inflation and Riba

From: Yuyun

Sent: Wednesday, January 07, 2009

Location: Malaysia

Question: is interest a cause of inflation?

Assalamualaikum prof

I'm student from Malaysia. I would like to ask your opinion about the Islamic banking services and practices nowadays. I also wanted to ask your opinion regarding the relation between inflation and Riba. May you tell me more about it? I hope that you can give me the answer as soon as possible.

Thank you prof. for your cooperation.

Salam.

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Yuyun

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. Islamic banking is doing well; Islamic banks are expanding, growing and increasing in number. Some banks practice, in some of their transactions not all, a few contracts that are controversial such as 'Inah and sale of debts in Malaysia and Tawarruq in Saudi Arabia.
2. There is scientific evidence on any causality relation between interest (Riba) and inflation although it is well known that sometimes one affect the other, back and forth. We cannot make a claim that inflation is caused by Riba or interest is a compensation of inflation. However there is sufficient evidence that Riba may be a cause of the business cycle or at least a reason for its blow up and expansion. The present crisis has a lot to explain that in fact Riba through debt sale (discounting or securitization) was a major element in the domino effect that pulled down many financial giants.
3. I suggest that you should read some textbook on inflation, money and banking to have more background on these matters.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

FATAWA INFLATION INDEXATION 2007

Subject: Inflation vs interest rate

From: Gillimer through Living Shari`ah – Islam on line

Sent: Wednesday, July 25, 2007

Question

Asalamu alykum Warhmatullahi Wabarakatu.

In a country where inflation is growing very fast compared to the economic growth rate of a nation (depressing the purchasing value of money from time to time), what would be a verdict on interest rate? No doubt, in a country where inflation is growing at an average of 15% the value of money is still depreciating if it is deposited in a bank at an annual interest rate of say 10%. Is it possible to speak of usury in such circumstances? How is the whole issue of interest rate seen in a country where there are no Islam banks? Will you please shed a light on these?

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina

Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Nasser

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

Interest is an increment in a loan or a debt and it is prohibited. therefore any increment that is in a loan contract is prohibited, whether the contract is providing a loan by a bank to a customer or depositing an amount by a customer for a contractual increment even if the inflation came at the end of they ear to be equal or more to the inflation rate.

Kindly notice that inflation is known only at the end of the period and when a contract is created only an expected rate of inflation may be included in the rate that is charged in the contract. 'Also notice that when there is a high unexpected inflation people tend to "escape" or run away from cash or cash commitments they do not deposit in banks and they do not give loans in cash unless they expect a return that exceeds the rate of inflation. Any contractual increment in a loan is Riba and it is prohibited.

On the other hand, once inflation rate becomes known (although it is very difficult to agree on what is the rate of inflation and there is not a single country in the world that has a 100% accurate calculation of inflation rate and also all countries with no exception announce always different rates of "estimated" inflation because to know it exactly you need info about every single good and service throughout all the period under study and the composition of the basket of purchases of every single household all this are impossible to obtain! therefore all figures are mere approximations), can already existing debts be adjusted accordingly, this is a matter that can be decided by a court and most likely, in many cases they can be adjusted for inflation from A Shari'ah point of view by an experienced court. This adjustment is not considered interest as it falls under what is known in economics as indexation.

In other words, in your hypothetical question, any charge of an increment in a loan contract is interest even when there is expected inflation whereas an increment decided by a judge in dispute solving about the effect of inflation is not considered interest.

By the way, the Fatwa sessions are for actual cases that happens with a person not for hypothetical issues.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

FATAWA INFLATION INDEXATION 2006

Subject: Indexation for Inflation

From: Rasha

Sent: Monday, July 10, 2006

Question

Dear Prof. Dr. Kahf, Asalam Alikom Wa Rahmatoo Allah Wa Barakatooh,

Regarding the book edited by you and entitled: Mawared Al Dawlah Al Maleiah fe Al Mojtam'a alHadeth mn wejhata Al Nathar Al Islameiah.("State Financial Resources in the modern society from an Islamic Prospective) 2nd edition, (2000).Published by Islamic Development Bank, the IRTI section.

Kindly find attached page Nr 87 of this book, which is written by Dr. Muhammad Awad.

In number 5 of this page the author indicating that zakat does not need indexation –as it is in taxes) since the zakat (Islamic tax) are not only proportional with wealth, rather it is a percentage of the quantity base and not the base value.!

Pleas Dr. what does it mean: as % of the Kameiah and not from Qeemah (line nr. 3 of sentence 5)??? Kindly advise...

Rasha

My Answer

Dear Sr Rasha

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

Zakah is in principle in kind. If you have an inventory of 200 television sets for sale the due Zakah is 5 sets (assuming they are all same is all their specifications). Then indexation doesn't become a matter. Because no matter what the value of the 200 sets the value of the 5 sets with remain 2.5% of that! Right! Wassalam,

Monzer Kahf

From: Rasha

Question

Dear Prof. Dr. Kahf, Asalam Alikom Wa Rahmatoo Allah Wa Barakatooh,

I hope you are O.k. I was anxious to receive your E-mail So,,,,, that's Prof. what I wanted to ask you.

If my deposit in the Islamic bank have reached to: 5000 \$(including Islamic interest), how then can I pay or take the 85 gram of Gold of theses 5000 –Isn't' this the in-Kind method or am I wrong???. But if I need to see how much the 85 gram of gold equals in dollars to determine the

Nisab, then this is not in-Kind payment/method. The same for your example: how you have calculated 5 T.V set as Nisab out of 200? Please help me...

Rasha

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. Rasha

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

You still need to be more accurate in your thinking and expressions. If you have US\$ 5000 you just calculate the Zakah at 2.5% = \$ 250 you don't need to think of Gold or any thing. Zakah is due out of the thing (= item, in this case cash money) that you own. If you own TV's you pay it out of TV's same rate 5 out of 200. If you own gold you also pay it out of gold. If you decide for any item to pay it from a different thing then you evaluate and this evaluation is on the day it is due, the day you are supposed to pay it. This means there is implicit indexation but the rate is fixed. The 85 grams of gold comes in the picture of a cash deposit only for one reason: to make the test of Zakatability. Am I subject to Zakah or not? Then if my items are not gold I don't use it and I don't need it at all. If Zakah were a given sum of gold, instead of a ration, or a ratio that is calculated at a different price than the current price of the item, evaluation would then only affect the actual amount I have to pay.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Rasha

Question

Dear Prof. Dr. Kahf, Asalam Alikom Wa Rahmatoo Allah Wa Barakatooh,

- 1- So paying in kind means from the same kind of assets: like If I have cash money, I pay my zakat in terms of cash money If I have camels, I pay sheep....etc of details If I have a company, I pay my zakat in cash money out of my net worth If I have shares, then I pay my zakat in shares. If I m a woman and have many gold, so I pay zakat in terms of gold. But what does the sentence that scholars have mentioned in their writings: choosing between paying in kind or in cash? Does it mean the above mentioned cases for paying in-Kind? Does it mean that for cases like Livestock and corps only I can pay what equals their zakat due amount in cash??
- 2- But in all of the previous above cases, I have to see if I'm obligated to pay zakat (inter alia) by doing / calculating the Nisab that is based on Gold: that is to see how much 85 gram of gold equal in dollar/euro/dinar, the day of payment
- 3- In your email Prof. you said on 5000 I have to pay 250, but I think it is 125??
- 4-You make me confused with your sentences mentioned in your last email: Then if my items are not gold I don't use it and I don't need it at all. If Zakah were a given sum of gold, instead of a ration, or a ratio that is calculated at a different price than the current price of the item, evaluation would then only affect the actual amount I have to pay.

I didn't get what you want to say? Salam
rasha

My Answer

Dear Sr Rasha,

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

1. You are right the amount of Zakah is 125 not 250.
2. The principle is to pay from each item and Zakah is estimated from each item in kind, but if the government, when it administer Zakah, or the payer or an organization that is given the Zakah as a distribution agent finds it convenient to pay in money, you take the value on the day it is due. Clearly there is no issue of indexation because it is built in. Indexation is needed in income tax because it is only imposed in money terms (if your income is 10-12 you pay 10%, for the strata of 12-14 you pay 12%, etc. Here you nominal income becomes 13 but its real value equals the 12 of last year, yet your tax become 12%). Think of it in Zakah, this doesn't happen.
3. I don't know why do you still hang on the issue of Nisab? It is really a very small and narrow issue that needs no worry at all. Which company in the whole world that only owns US\$ 1000 or 1700. It is ridiculous to talk about Nisab when we deal with companies. All companies, every where in the world are subject to Zakah (from this point of view). so if every one is subject what is the benefit of talking about Nisab? Nisab is a test of Zakatability for individuals in poor areas only. I can almost make a claim that every American Muslim passes this test and she/he is subject to Zakah. In Jordan, yet many people in the countryside and in cities don't pass it. But certainly every company, including personal partnerships, in Jordan passes it and if you find any other result then you must doubt it and redo the test again.
4. Te sentence in 4 below is correct, a bit complex, but correct, think of it again.

Wassalam,

Monzer Kahf

Subject: Question on Riba and Inflation

From: Ibad through Islam on line

Sent: Monday, June 12, 2006

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I understand that RIBA (appreciation or augmentation to the principle) is Haram in Islam. This means if we earn interest on the money in bank it is Haram. My question is: How do we explain the depreciation in the value of money due to inflation? What is the islamic way to counter this depreciation in monetary value?

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. Ibad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh First, kindly notice that interest is not a compensation for inflation and it has never been. Simply, interest is an increment stipulated in a contract of loan provision while inflation happens with time and no one knows, at the time of contract what the inflation is going to be. Interest is a price for lending money or a price for

indebtedness, it has nothing to do with inflation and it is contracted whether there is or there is no inflation. However, whenever people expect inflation they manage their prices so that they cope with their expectations (which obviously may not be true in a sense that actuality would often come different than what was anticipated). A seller who expects inflation that will affect the cost of new goods he will buy would go ahead and increase the price of the goods he is selling now. Interest lenders do the same. This means that when interest lenders expect a rate of inflation of say 5% they would add this rate to the rate they want to collect as a price for the indebtedness (interest). Also when there exist risks of default of currency value in terms of other currencies (exchange rates of currencies) lenders will also add a risk premium to the rate they want as interest. In other words you will notice that in interest lending the charge consists of three components: interest per se, anticipated inflation rate and risks premium. All these three components are put together under one name simply interest because, contractually, they can't be distinguished from the charge for indebtedness. Of course when put together they are all together Haram. But if we are able to deal with each one alone, take the case of risks premium: suppose we have an Islamic non-profit organization such as a Waqf as a lender. It gives loans without any price of indebtedness. It is known indisputably in Shari'ah that the actual cost of its operation can, and must, be charged to the beneficiaries of its loans (this is well established in classical Shari'ah writings and there is also a resolution to this effect by the OIC Islamic Fiqh Academy) would it be permissible for it to consider the actual losses caused by default, foreign exchange and other mishaps as part of its cost and charge the same to the beneficiaries. The answer is: YES of course. Now inflation is a little different because you don't know what it really is! This may sound strange, but can any one tell me what is the loss of value of currency because of inflation? There is really no way of knowing it exactly. It is estimated by changes in price index. But what is the index, which one we use, consumer prices, producer prices, retail, wholesale, prices calculated by labor unions or by the association of industrialist or by the government, and which department of it, etc. Inflation is felt but can't be exactly known. This leaves open the idea that any rate you may assign as "compensation for inflation" may include a portion as a price of indebtedness. Thus it is mixed with Riba and can't really be distinguished although theoretically we talk about it and know what it is! Paradoxical as it is, this treatment of inflation is called indexation. In other words, indexation is assigning a rate that compensates the decline in the value of money. Because of the way it is calculated and because it is always intermingled with interest, it has become controversial some people argue it is Haram and some other it is Halal. One way of solving this problem is by government action. If, after a period of inflation the government decrees that all debts in the society that are affected during this period should be increased by a given rate, this indexation may become permissible and independent from interest.

Finally, you cannot decide for yourself, or in a two party contract, that this increment or part of it is a compensation for inflation and all such increments on bank accounts are interest and must be given away to Muslim charity.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

FATAWA INFLATION INDEXATION 2005

SUBJECT: INTEREST, INFLATION AND ISLAMIC BANKS

From: lodhi

Sent: Saturday, October 15, 2005

Question

Assalam Alikum

I hope you are well by the grace of Allah. I have written to you on many occasions but I believe because of your schedule you were unable to answer to my query. You also mentioned in your one response to me that the question has been forwarded to Dr. Monzer Kahf (Islamic Finance Expert) but Mr. Khalf has not provided the answer as yet.

Sir, I wanted to know if I can avail Staff Bank Loan For the Purchase of Home. As a bank employee one of the perk is to avail loan at subsidized rate as compare to the market. Property values in Pakistan have risen a lot in the past few years and has become hard to buy property from my own savings. The market rate for Home Loan facility ranges from 16 to 19% whereas the bank employee is allowed to avail the same facility at around 4% for 20 years which is actually below inflation, the bank is charging 4% as it's the handling cost and in fact loosing money in the case of employees as compare to commercial loan which has a service charge from treasure in-between 7 to 8% and then lending at 16 to 19%.

I am married with a child and looking to have property for the wellbeing of my family I am wondering if it would be allowed to avail this facility in Islam, keeping in mind the prevailing conditions and our economics.

Your response to the question will be highly appreciated. Jazak Allah Khair.

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. Lodhi,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This is one of the toughest questions I faced over the last many years and I feel very hesitant in giving an answer. If I want to save my skin and yours, I would suggest to use the Taqwa element (so I can escape giving a Fatwa on it) and do not take this loan.

Yet, I feel embarrassed because this suggestion does not solve the problem in an age where such big differences in the charge do matter a lot over such a long period of time.

It seems that if the inflation rate is really equal or higher than the charged rate of interest, we may find an excuse in the idea of indexation that is disputed and some scholars argue for its permissibility.

I still do not dare to say that it is permissible, in a Muslim country that has several Islamic banks, to take an interest- based contract!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam
Sincerely,
Dr. Monzer Kahf

From: lodhi
Sent: Tuesday, October 18, 2005

Question

Mr. Kahf, Assalam Alikum,

Thank you for your answer, I would like to have clarification on Riba, is Riba/Interest is same as what it was used to be and what are the arguments of the scholars you are mentioning who would give a view in favor of taking the staff loan.

What is your view on the current environment of interest that we are living in, its prevalence in all walk of life and working for a commercial bank.

Your answers will be beneficial and I will be looking forward. Best regards,

Lodhi

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. Lodhi ,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

- 1) Yes, interest that is practiced by conventional banks today is the same, in its nature, as was practiced at the time of the Prophet, pbuh. Riba is an increment in a loan or debt; this is exactly the banking interest today.
- 2) Although in the West interest is dominant in banks, it is not in "all walks of life." it is bad or rather too bad! And it has no scientific justification (at least as J. M. Keynes argued) if not the argument offered by all Muslim scholars.
- 3) In a country like Pakistan, there are several Islamic banks and any Muslim has the choice.
- 4) I never said that there are Muslim scholars who "are in favor of a staff interest-based loan" I said: "It seems that if the inflation rate is really equal or higher than the charged rate of interest, we may find an excuse in the idea of indexation that is disputed and some scholars argue for its permissibility." The issue of indexation is different from charging interest. Some scholars argue that when there is high inflation, the amount of loans may be increased by the inflation rate to keep its real value constant. This is neither, according to them interest, nor interest-based loans because we only keep the real value of the loan. This is a minority among Muslim Scholars but the Majority, including a decision by the OIC Fiqh Academy such an increment, although it is done not by a prior agreement to charge Riba (interest) but by raising the amount of a loan by the rate of inflation at the end of each period, is also Riba and is prohibited.
- 5) The opinion on interest-based banks is that they are Haram and a Muslim must not establish such a bank. In countries that have no Islamic banks, it is permissible to deposit and have other transactions like letter of credit, etc. with them provided that one does not deal on interest-basis with these banks. But interest-based deposits and other interest-based transactions with them are Haram.

- 6) Working in such a bank is not Haram in order to avoid placing hardship on people like your kind self. But a Muslim who works in such a bank must not do anything of the kind or writing, signing, approving or be a witness to any interest-based transaction. (e.g., working in the IT dept is permissible but in the loan department is not). Yet, this is certainly not the best job in the world, it is no doubt a help to the Riba-based transactions. (for instance, I advised my son not to take such a job and he did not).

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

SUBJECT: Giving a loan instead of buying a house

From: Islam on line

Sent: Wednesday, September 14, 2005

Reference No: xdX6RC

First Name: Mohammad

Question:

Assalaam o Alekum! I would like to present a case before you and then would like to have your expert opinion in the light of the teachings of Islam. Case: Suppose, a Muslim does not own a house himself but he has \$100,000 with which he can buy a house for himself. Another Muslim brother needs that money, he lends \$100,000 to his Muslim brother. Now, after 5 years he returns the loan to the lender. But now it's of no use to him because the prices have shot up and that money cannot buy him the same house. Would it be considered "Haram" for him to ask for such an amount that could buy him the same house? Thanks.

Jazakum Allahu Khairan for your constant help

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. Muhammad,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Thinking too much on hypotheses does not really help or solve problems. Let me apply your assumption on the case of southern California for the period 2000-2005 to show you how your assumption looks very unreasonable! Prices of real estates in this area shot up about 340% in five years, Do you suggest that the borrower should pay back 340,000? Let us also take another example, computer prices. They went down in this period about 30%, Do we ask the borrower to only pay 70,000? Would any one suggest such things?

The effect of inflation, which is an increase in a general price index, not in any specific price of any specific commodity, is usually taken care of through some form of indexation not through interest (although an interest lender would also consider one kind of inflation that is called anticipated inflation and add its rate to the interest he charge, this means that he charges a rate for the money and a rate for anticipated price level increase). Indexation is controversial, both from economic and Shari'ah points of view. And the best solution seems to me what was

suggested by Ibn 'Abidin in his Hashiah Book that the difference must be settled through fair arbitration or in court on a case-by-case basis.

The issue that you need to look at is: "what did he lend" and a loan is only a voluntary benevolent help to others not a business transaction. If he gave money he gets money back. That is fairness and justice, and if he gave a house he gets a house back. No body lives inside the heart of any body else, you gave me money then you say "I wanted to buy a house with it" well, why not computers?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

SUBJECT: Interest, inflation and indexation

From: Islam on line

Sent: Monday, January 10, 2005

Question from Netherland:

As Salamu ALaykum, Someone i know believes that bank interest could be Halal. The explanation he gives is that it could function as a compensation for the inflation of the currency. Every year things get more expensive and you will need some more money to buy the same things. could there be any truth in this?

Jazakum Allahu Khairan for your constant help

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. Kareem,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is well established in the science of economics that interest is not a compensation for Riba. There is corresponding relation between interest and the rate of inflation. In one case, when inflation is expected, the nominal rate of interest includes an inflation component so that the real rate of interest becomes consisting of two parts: a compensation for inflation and a price for money. It is known however that most inflations are not anticipated that is why it happens many times that the ex-post (when you study it from statistics obviously of past periods) real interest rate was negative because the rate of inflation was more than the nominal rate of interest.

Finally, please keep in mind that in economics we use indexation (tying the amount of a debt to a certain price index) for inflation not the interest rate. Indexation is a compensation for inflation not the interest rate and indexation can only, economically speaking, be applied after the event not at the time of contract. And when we talk about prohibition of interest in Islam we certainly mean the price of money and we apply it to any increment that is made a condition at the time of contract. A solution (indexation) at the time of settlement of a debt (not at the time of contract) is another issue and may not be prohibited after all, but it should be decided by a court of justice.

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

FATAWA INFLATION INDEXATION 2004

Subject: Should My Uncle Pay the Inflation and Pay the Partners?

From: Islam on line

Sent: Tuesday, December 28, 2004

Name of Questioner riyaz

Question

Dear Scholar, Assalamu Alaykum. One of my uncles had a shop with partners and then it was sold due to loss 40 years back and he didn't pay the share amount then to the partners due to problems. Now he is willing to give that due amount to the partners. My question is should my uncle take inflation into consideration and pay the partners more?

Jazakum Allahu Khairan for your constant help

Yours

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. Riyaz,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I think leaving a right of others with him for such a long time, 40 years, and you uncle knew that was the partner's right is an action that puts the blame on your uncle. I say YES, your uncle must pay the partner what is due to him plus the inflation difference and may be even plus the profit your uncle made out of using that amount for this long period.

In an authentic Saying the Prophet, pbuh, mentioned, with praise that God saved the person from a sure and definite destruction, the story of a man who employed a laborer and when he was going to pay him the laborer got angry and left refusing to take his money, then the man invested the due wage in buying a sheep and raising it and when the laborer came back after a long time he gave him the whole herd of sheep. This man, the Prophet (pbuh) told, was saved with his two friend from a cave completely closed by a huge rock.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

SUBJECT: indexation and indexed bonds

From: husam

Sent: Monday, September 13, 2004

Question:

Dear brother:

From what I read from your fatwa (included below), is it correct to assume that if the government introduce a product that you can put your money in and compensate you for the loss of the value of your money by indexing this product to the rate of inflation (no more or less) is it then Halal. As this product is a government regulation available to everybody. so every citizen who have extra money can put his money in this product and the government who is responsible for the inflation will be compensating each of these citizens for the erosion of the value of their money by inflation. And who wishes not to participate then he bears the responsibility of the loss of the value of his money. And who does not have any extra money he has lost nothing. So it is fair to everybody.

I am just drawing similarities from your fatwa.

In other word what is the current opinion about indexation is it still controversial, is there still some scholars argue for it permissibility?

Housam

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. Hussam

Do you notice that your conclusion in regard to my fatwa is like what happened to Ibn Abbas when he was asked whether God may forgive a killer and once he said no while he said yes in another occasion! The difference was the first questioner wanted to kill and was looking for a way out before hand the other have already committed a murder!

My Fatwa deals with an increment imposed on debtors (all of them) as indexation because inflation took place. You incorrect analogy was about contracting the government to give an increment over a loan I will give it!

They are not the same!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Hussam

Sent: Wednesday, September 22, 2004

Question:

Dear brother:

1- The question that you were asked indicate that the bank continues to add an extra amount of money to the deposit to compensate for inflation, it does not say that the inflation happened once and the government is compensating the depositor for that time only, it is stated in the

question "" The bank continues to add some profit to our money. So in this case will it be Sood (interest)?"

so according to the question the depositor is anticipating continued additions to his deposit if inflation continued in the future, so the analogy was the same you deposit the money with the government and you expect the government to compensate you if only inflation happened.

YOUR RESPONSE TO THE QUESTION INDICATES AGREEMENT WITH THIS ONGOING COMPENSATION FOR THE INFLATION.

2- I am also confused about your dates, you stated that" I go along with the prohibition of indexation of debts because it is Riba. This is also the opinion of the OIC Fiqh Academy in its 2001 resolution"

But when you answered the question in AUGUST 2002 you stated "The Reason is that indexation is controversial, and some scholars argue for its permissibility and in controversial matter we don't hassle to Prohibition."

Weren't you aware of the 2001 resolution when you answered the question or did you change you mind

3- How can I get the QIC resolution, is there is an internet link or a web page for the QIC resolutions especially the one about indexation.

housam

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. Hussam,

Then I must have made a mistake!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Loan and Inflation

From: sami [mailto:sami_umar@hotmail.com]

Sent: Sunday, August 01, 2004

Question

In 1997 a person took a certain amount of money to invest in Egypt and then ran away to the US. Recently we were able to locate him and under pressure agreed to give back the money in installments. As the value of the Egyptian pound has devaluated dramatically since then and we could have invested the money ourselves, so are we allowed to get an increase on the original amount or would that be ""Reba"". Please take into consideration that we did not lend him the money but was for investment.

Jazakum Allahu Khairan for your constant help

Yours

My Answer,

Bismi Allahi al Rahmani al Rahim,

Al Hamdu li Allahi Rabbi al 'Alamin, wa al Salatu wa al Salamu 'Ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi 'Ajma'in,

Dear Sr./Br.

Assalamu Alaikum wa Rahmatu Allahi wa Barakatuh

If the money is taken for investment, we first need to know what happened to that investment before he ran away to US. If it was lost with no fraud or betrayal of contract, or gross neglect, then the owner of the money is the looser and that person should not be charged any amount and needs not to repay anything, let alone any increment over the principal amount.

Once we determine the actual result of investment, then if there is any money left to the owner and the investment term expires, that person must return the remainder to the owner. If he did not, he was then making a mistake of aggression on the funds held in his hands, and he can be charged for any damage that happened to the owner as a result of this delay but this can only be done within a settlement that must take into consideration the abilities of both parties and their use of funds, the amount of damage including the effect of inflation on the domestic and external price of the Egyptian pound but not to include a presumed potential lost profit or return (for instance rate of interest or rate of distribution of profit in Islamic banks) .

Wa Allahu A'lam,

Wa al Hamdu li Allahi Rabbi al 'Alamin,

Wa Assalam,

Sincerely,

Dr. Monzer Kahf

Subject: deducting inflation from interest

From: Islam on line

Sent: Tuesday, May 11, 2004

Name of Questioner Rami Country of Residence Egypt

Question

Alsalamo Alaykom Wa rahmato Allah. I am working in a usury bank as a cash teller. I must have an account in the bank as per bank procedures, to transfer my salary. I cannot open an account in an Islamic bank because i am working at the same time the Islamic banks are open and i cannot leave my work. I am planning to withdraw the interest and give it to needy people. My Question is :"" May I deduct the inflation rate from the rate of interest the bank is giving me. In this way i will be giving to needy people less than before, so that the value of my money remain the same, because the inflation rate is too high and if i don't accept the interest my money value will decrease by time. To clarify: Instead of giving to needy people each year 10% of my saving balance wich is the rate of interest, i will give them 10% less 2%(the rate of inflation) =8% of my saving balance

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. Rami

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

While working in a conventional bank in jobs that do not require you to write a Riba contract (your job is one of the permissible jobs) is not forbidden, working in Islamic bank is certainly much better.

The answer to your question is: NO. You may not deduct the inflation rate from earned interest because this interest is not yours and you have no authority over it from Shari'ah point of view. It is treated as money that has no owner (actually it is still owned by the interest-based bank but was given to you and we do not return it to the bank in order to avoid helping it to make more evil transactions); money that has no owner belongs to Muslim charity (poor and needy, etc.) as the only way to dispose of it. If you keep the money at home would any body compensate you for inflation? Besides, why are you making it appears as if there are no other solutions? You may open a checking account in your bank and an investment Mudarabah in an Islamic bank and each month transfer the amount of your salary that you do not need for expenses to the Islamic bank. This way you get Halal income that compensate you for inflation that is normally caused by government actions or lack of actions.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

FATAWA INFLATION INDEXATION 2003

Subject: Is Interest a Compensation for Inflation?

From: Islam on Line

Sent: Sunday, December 28, 2003

Name of Questioner Rami

Question

Dear Brothers, Inflation rates actually diminishes the value of money we deposit in banks and therefore, I don't see nay valid reason why we shouldn't get a kind of compensation in the form f interest rates. What's your opinion? Jazakum Allahu 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. Rami

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

While it is true that inflation reduces the purchasing power of an amount of cash a person holds, interest is neither the cause nor the effect not the contractual compensation of inflation. Interest is a contracted increment in a loan and that is forbidden in Shari'ah.

Inflation reduces also the value of cash you keep in your pocket is the bank going to compensate you for it? it also reduces the value of contractual future salaries of salaried

persons and of debts you may have on your brother or mother is the bank going to compensate you for that reduction?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Interest in Saving Bonds and Inflation

From: housam

Sent: Wednesday, December 10, 2003

Question:

I would like your opinion about investing the US saving bonds type (I) from Shari'ah standpoint

1- the money from these bonds is used for supporting the government operation including ,may be building roads bridges supplying all type of public services--- you have stated in some of what I read for you that participating in such activity is Halal

2- the return on these funds is paid from the government treasury department, mostly from taxes which the government gets in return for these services

3- the government only promises protection against inflation for the money in this type of funds

4- the rate of return is variable and determined every 6 months by indexing this return to the inflation index that is determined carefully on specific data.

5- so basically this rate might go down to 0%. When I started investing it these Bonds the rate was 7.5% and now it is 2.16% for the same bonds

6- so this investment helps stabilize the buying power for the money and at the same time helps the general public

my other question

do I pay Zakah of the profit only at 10% or on the profit and principle at 2.5%,or this is considered a loan to the government that you pay Zakah on when you cash it as some scholars allow (malki mazhab)

thank you for your help, if you need more information please let me know. alsalamoalekom warahmatoallah wbarakato

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. Housam

Assalamu Alaikum wa Rahmatullahi wa Barakatuh.

1 - To begin with buying these bonds and holding them is Haram in Shari'ah. These are interest-based loans to the government, no more no less. What is prohibited in interest is not its fixity but rather its being an increment in a loan contract. Riba you know is one of the worst sins in Shari'ah. The indexation of the return in these loans is a different issue that is itself controversial because of its proximity to interest but under all view indexation is not the reason for prohibition in these loans; the reason is being an increment in a loan. Financing government

projects can be done in accordance with the Shari'ah on the basis of Ijarah bonds or Mudarabah bonds.

2 - Any interest obtained from others, government, companies or individuals is NOT EARNED from a Shari'ah point of view. You must make Istighfar, quit this kind of investment and give away ALL its return to Muslim charity because it is not yours. As you do not own it there is no Zakah on it!

3 - Zakah on investment in permissible stocks and shares is on the net asset value on the day when Zakah is due. There is nothing in the Shari'ah like this 10% on net income of stocks. Stocks are not agricultural products, even in agriculture the 10 percent is on the entire product not on the net. Such an analogy is far fetched and unsound. Stocks are tradable assets and whatever dividends you may get is normally added to your cash flow and, if not spent, included into your end of the year balance that is subject to Zakah at 2.5%. The net asset value of the stocks is also subject to 2.5% at the end of the year like any other tradable assets.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Question:

ALSO I want to add that the return on these I bond is purely related to the inflation index nothing more of less housam

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. Housam

Assalamu Alaikum wa Rahmatullahi wa Barakatuh,

Is this in the USA? If it is then you are wrong. There is an interest rate and this interest rate is related to inflation.

I don't know of any bond anywhere in the world that has no return on its own, add to it the indexation. Besides who tells you that it is spent on roads and similar? Why not on weapons to attack other countries like Iraq? It is a general bond to supplement the treasury of the government. There is no escape from the answer I gave you and you have to repent, quit, give all return to charity and pay Zakah on principal.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Monzer Kahf

Subject: Riba, inflation and the abstract nature of money

From: David

Sent: Sunday, November 23, 2003

Question:

Dear Dr Kahf

Riba and Inflation

I have read widely on this in relation to Islam and your comments alongside that of other eminent Moslem scholars are that adjusting a debt for inflation is Riba and therefore wrong.

The reason I question whether it is really Riba is the fact that "money" is merely an abstract representation of the value of goods to avoid the inconvenience of a bartering system. If I borrow 10 loaves of bread from a friend, it is right that I pay back the same. If they demanded 12 it would be Riba. The point is if we converted into money and the abstract representation of the 10 loaves of bread was "100 units of currency" but I later paid back the loan when the cost of the loaves was "110 units" the extra units would not be Riba, it would be simply the same amount once converted to tangible goods. Surely there is no usury or Riba going on here? I would dearly like an explanation why adjusting for inflation is in fact Riba of this in logical terms. The only explanations I have received so far have been circular arguments such as "the Qur'an forbids it so it is wrong, it is wrong because the Qur'an forbids it". The Qur'an does understandably forbid Riba but it is a question of the context it was written in Thanking you in advance for a logical answer in relation to the abstract nature of money.

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. David

Assalamu Alaikum wa Rahmatullahi wa Barakatuh.

The point you raise is important and well taken, but if leave the nuance of economic jargon, do you really think that interest is a compensation of inflation? is it not a policy tool? is it really determined by the difference valuation through time of goods and services? is the reality as simple as you abstract it in ten loaves of bread? is contracted interest a good approximation of what will happen in the future of inflation? And how about deflation, has it ever happened that the creditors pay interest to borrowers? also who is going to pay for those whose money value has been eroded while they still keep it in their vaults or in checking accounts that pay no interest?

Another thing, do you see a difference in the example you mentioned between Riba and value erosion? without denying the beauty of the abstraction of money "abstract representation of value of good" is it not something that people exchange and actually treat like any other commodity. So as simple as: if you give me 10 units of money you get back 10 units and if you give me 10 unit of bread you also get back 10 unit of bread. Is it not rational that if you allow such a contractual increment in one you should also allow it in the other? and is abstraction of money dynamic or fixed? don't people also look at some commodities as quasi cash?

Besides, let us take a moment to go to law. any law must have certain line between the do and the do not. would you draw the line, even in your example, that any contractual increment in any thing is Riba or you would exclude one thing, money? so that people would use it to get gains, not really to compensate for value erosion, and avoid using other denominators for the pretext.

Also, Indexation is been discussed in Islamic economics. It is considered by many as the right compensation of inflation. Yet many others argue that it opens a back door for Riba that must be kept closed because through it many pure Riba practices may go too.

Finally I would like you to read the paragraph; I quoted below from a forthcoming article by Prof. Siddiqi that puts some of these points in perspective.

Please write again if you feel you like to continue this and any discussion on any of these subjects.

Wa Allahu A'lam (and God knows Best)

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

"INTEREST AS COMPENSATION FOR INFLATION

"While some of the bad effects of interest mentioned above, e. g., interest causing instability, have come to light recently its unfairness as a social arrangement has been in focus for ages. What makes it tick, then, not only among those who stand to benefit by it but also by people in general? There seem to be two main reasons, one a product of the circumstances during the last half century and the other rather old. The older reason for general acceptance of interest is the perceived lack of an alternative. The recent reason is erosion in the value of money due to persistent inflation during much of the last half century. Bank depositors as well as creditors of all sorts stood to lose in terms of purchasing power unless compensated for the decreased value of the sums originally involved. Interest was looked upon as such compensation.

But is that true? And is the borrower/debtor the right party to be obliged to pay the compensation? Inflation is caused by wrong monetary policies in the first instance. Certain factors at the macroeconomic level, e.g., deficit financing..... may also be responsible. Neither has anything to do with the borrower/debtor. Insofar as the debt is the deferred price of goods or services purchased, the expected inflation can be taken care of by contracting for a higher than spot price. In cases of money loans it cannot be ascertained whether the benefits actually derived from the liquidity so obtained are sufficient to afford extra payment. Intermediation by a bank does not change the situation. All that can be asserted with a degree of plausibility is the entitlement of the lender to some compensation. But this applies even to the owner who keeps his/her money under the mattress, a case in which no other party is involved. In all fairness a compensation for the loss in purchasing power of money due to inflation should come either from the authority which manages the society's money or from the party which actually benefited from inflation.

Making interest take over the role of compensating for inflation has two distinct disadvantages. First, it hurts certain social classes which hardly deserved to be hurt; and second, it gives undeserved benefits to certain other classes. This became very evident in the United States and many other countries during the Reagan/Thatcher era in the nineteen-eighties when the authorities allowed double digit rates of interest causing huge sufferings to farmers and home owners whose cost of servicing their debts and mortgages

skyrocketed but brought windfall gains to creditors". [Prof. Muhammad Nejatullah Siddiqi, upcoming article on economic effect of Riba, in the Encyclopedia of Islamic Economics, V 2].

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 **Country**

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

SUBJECT: Inflation, Indexation and Riba

From: dialogue@islam-online.net

Sent: February 24, 2003

Name of Questioner Ouach **Country** 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. Quaich

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 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

FATAWA INFLATION INDEXATION 2002

SUBJECT: Indexation by government regulation

From: Islam-online.net

Sent: August 14, 2002

Name of Questioner ZA

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 hassle 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 and the Mahr at the time of the Prophet, pbuh

From: dialogue@islam-online.net

Sent: Thursday, June 20, 2002

Name of Questioner Amina Country 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 than one marriage done by His companions with his approval on Mahr that was much smaller than 400 Dirham. There 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, they 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

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 Country 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: Effect of inflation on long term debts

From: Islam on line

Sent: June 15, 2002

Name of Questioner rizwan

Country Pakistan

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 view that argue for the time the loan is given and the time the laon 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 ogligations 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

SUBJECT: Indexation and the prohibition of Riba

From: Islam on line

Sent: June 10, 2002

Name of Questioner Nabeil

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: Is interest a compensation of inflation?

From: dialogue@islam-online.net

Sent: May 23, 2002

Name of Questioner Ahmed 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: Can inflation happen under an Islamic system?

From: dialogue@islam-online.net

Sent: April 18, 2002

Name of Questioner mir Country 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

SUBJECT: which is prohibited: Riba or interest?

From: dialogue@islam-online.net

Sent: April 16, 2002

Name of Questioner rizwan 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

FATAWA INFLATION INDEXATION 2001

SUBJECT: Delay of payment of debts and inflation

From: dialogue@islam-online.net

date: 5/10/2001

Name of Questioner Farooq Country of Res. Pakistan

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 then 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 loose 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 reworded 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: Issuance of paper currency

From: dialogue@islam-online.net

Date: 4/19/2001

Name of Questioner Mitrim 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

SUBJECT: Effect of inflation on long term debts

From: dialogue@islam-online.net

Name of Questioner Khurram

Date Submitted 2/20/2001

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

FATAWA INFLATION INDEXATION 1999

SUBJECT: Effect of inflation and Riba

Date: 12/8/99

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
