Riba (Usury) 1,400 Years Ago and Modern-Day Interest in Banking and Finance



Historical Context of Riba and Its Prohibition in Islam

Without any doubt, Riba (Usury), i.e., interest at an illegal and exorbitant rate (doubled and multiplied), has been decreed a sin for Muslims in Islam. 1,400 years ago, during the time of the Holy Prophet (PBUH), there was no economy, banking, or finance like today's. Even at that time, there were no such things as inflation, reduction in purchasing power, or long-term productive loans. This means that the purchasing power of a particular currency unit at that time remained the same even after one or two years.

Understanding the Impact of Inflation on Borrowed Currency

Let us compare the prevailing situation 1,400 years ago with the present time using a simple example. Say, 1,400 years ago, A borrowed 1,000 units of the prevailing currency from B and returned the same amount after one year. In this case, the real value, i.e., purchasing power, of 1,000 units of currency remained the same after one year. Now, let us see the scenario in the present time. If, in the present time, A borrows 1,000 units of the prevailing currency from B and returns the same amount after one year, the real value—i.e., purchasing power—of 1,000 units will change. Due to inflation, purchasing power will be reduced to, say, 980 or 990 units. This is a phenomenon in the modern economy.

In other words, 1,400 years ago, if A was able to buy, say, 4 camels with 1,000 units of currency, he would still be able to buy 4 camels with 1,000 units even after one or two years. However, in the present economy, the scenario would be different. If A can buy 5 kg of sugar with 1,000 units of currency now, after one year, he will not be able to buy 5 kg of sugar with the same amount due to inflation and a reduction in purchasing power. He will need more than 1,000 units of currency, say 1,100 or 1,200 units, to buy 5 kg of sugar in today's economy.

Differentiating Between Interest and Riba

The above example proves that, based on the scenario of 1,400 years ago, a borrower in today's modern economy must return the real value of 1,000 units of currency after one year, which will be more than 1,000 units due to inflation and a reduction in purchasing power over time. This real value, in the modern-day economy, represents the original amount of 1,000 units of currency plus an additional amount to adjust for inflation. This "additional amount" in the modern economy can be termed as "interest."

In modern times, the term "interest" is mainly applied in the banking industry, where small depositors "lend" their money to banks, and in turn, banks "lend" this money to entrepreneurs for national development. Banks return money to depositors, say after one year, with some additional amount to account for inflation and the reduction in purchasing power. Similarly, entrepreneurs return borrowed money to banks after one year, with an additional amount to account for inflation and the reduction in purchasing power. This "additional amount" in the modern-day economy is termed as "interest."

However, this "interest" cannot be classified as Riba as defined in Islam, since there is no exploitation involved, and no doubled or multiplied amount is involved. Lenders, in the first instance, are ordinary people — some of whom are poor—and there is no illegal, exorbitant, or exaggerated rate of additional amount. This additional amount is consistent with inflation and the reduction in purchasing power. Contrary to this, Riba is banned in Islam, as it involves the exploitation of borrowers based on illegal and exorbitant rates, and as per Divine Order in Verse 130 of Chapter 3 of the Holy Quran, believers are prohibited from devouring Riba, i.e., Usury that is doubled and multiplied.



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Insights from Islamic Scholars on the Position of Riba

Now let us see what prominent Islamic scholars say about the actual position of Riba (Usury).

Renowned Quran translator and commentator Abdullah Yusuf Ali, in his Quranic translation of Chapter 2, Verse No. 275, in footnote No. 324 on page 111, writes the commentary of the above verse, inter alia: "When we come to the definition of Usury (Quranic word Riba), there is room for difference of opinion." He also writes under the same footnote 324: "My definition would include profiteering of all kinds, but would exclude economic credit, the creature of modern banking and finance."

Egypt's senior Muslim cleric, Sheikh Mohammed Sayyed Tantawi, the Mufti of Egypt, issued a Fatwa on 27 Ramadan 1423 Hijri (2 December 2002 AD) stating that interest paid by banks on deposits used to finance national development projects is accepted (i.e., legitimate).

Based on my personal experience as Finance Controller for 25 years with a state-owned oil corporation in the UAE, I have personally observed in bank statements issued by banks in Arabic that they were using the Arabic word "Faydah" (Profit) in the bank statements to describe/mention the amount of "Interest."

Our religious scholars must think deeply on this issue—particularly in light of what Verse 130 of Chapter 3 says about exploitation in the form of Riba (Usury) as compared to the term "Interest" (Faydah), which is part of the financial institutions' functions globally. These institutions are the backbone of every country's economy, and billions of people depend on them. They must differentiate between the illegal and exorbitant rates of Riba leading to exploitation and the minimal rate of Interest generated by today's economy, where no exploitation occurs, and no doubled or multiplied Usury is involved.

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