



Islamic Approach to The Interest / Riba

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Abstract

The issue of interest/riba has always been a highly controversial and complex subject across societies throughout history, with Muslim communities being no exception. Scholars have not reached a unanimous consensus even on its definition. In Islam, the concept of interest differs significantly from other systems, encompassing broader dimensions. It places immense importance on terms such as 'right,' 'equity,' and 'justice,' with a great emphasis on their protection. Consequently, it unequivocally prohibits interest, associating it with injustice and wrongdoing. This paper aims to precisely define interest/riba from an Islamic perspective, drawing insights from the Quran and the saying (hadith) of the Prophet Muhammad (pbuh). Beyond the widely recognized '*interest of debt*,' the Prophet also introduced to mankind another form of interest: '*the interest of exchange/trade*' which manifests in the exchanges of goods, and of foreign currencies for each other. Within this framework, two subtypes emerge '*the interest of surplus*' and '*the interest of term/ delay/ deferral*.' The paper also delves into the impact of fungible and non-fungible goods on interest, exploring the reasons behind its emergence in both goods and money. Lastly, it provides preventive suggestions for financial crises, as presented by the Prophet Muhammad (pbuh).

Keywords: Interest/riba, usury, Islam, Koran, money, Interest of debt, Interest of exchange, Interest of surplus, Interest of term

JEL Classification: D33, E4, N4, P4, Z12

Introduction

Definition and Scope

Interchangeably termed in Turkish 'faiz', and in Arabic 'faida / فائدة', the equivalent of the concept 'interest' in Islamic literature is 'riba / ربا', which means excess, surplus, and growth. The

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Arabs in the pre-Islamic period used the word *riba* in daily life in this sense, and also in the sense of “increase in debt as term/maturity date is extended” as is generally understood today (Hamood, 1976: 104).

From the Islamic perspective, interest/riba refers to an actual or potential excess or surplus in one of the two items, without any corresponding or comparable equivalent. This excess can emerge either in loans or in the exchange of goods or currencies, and it inherently causes inevitable loss to either of the two parties. (Özsoy, 1995: 12/110-26).

In other words, *interest* is a measurable or noticeable imbalance/discrepancy/ disproportionate in loans or exchanges for one party to the loss of the other. Being an unrequited excess, it has no consideration/ commensurate/ counterpart that can be matched. It causes economic disparities between individuals, factors of production, and even nations, resulting in considerable social and economic problems. This is a reason for interest to be banned by all religions and for its being criticized by most philosophers and scholars throughout history.

According to Islam, there are two types of interest: First, the *interest of debt/loan* (borç faizi/ *riba al-dain*/ ربا الدين), one that appears in debts, loans included, as a percentage or any fixed payment added to the principal amount. It is generally known by everybody throughout human history.

In addition to the *interest of debt*, Islam introduced the concept of *the interest of exchange/trade* (alış-veriş faizi/ *riba al-bai'*/ ربا البيع). This type of interest occurs in the exchanges of goods, and of currencies on the spot (hand-to-hand) and/or forward (to a fixed term) basis.

The *interest of exchange* is also subdivided into two kinds; one is called the *interest of surplus* (fazlalık faizi/ *riba al-fadl*/ ربا الفضل) that appears as a *quantitative surplus* in either of the two exchanged items of the same kind.¹

The other is called the *interest of delay or deferral* (vade faizi / *riba al-nasia* / ربا النسيئة) that appears in exchanges/sales as a *quantitative or potential surplus* (value differentiation) when one

¹ As in the case when two measures of wheat are exchanged for three measures of wheat, even if it is due to a difference in quality. Here arises the question: Why is quality overlooked and not considered the counterpart of the quantity difference? This topic will be explored further in the subsequent pages.

of the exchanged items is deferred to a term, except the exchange wherein one of the items is money.²

While the Koran deals with the interest of debt, the sayings/hadiths of the Prophet Muhammad predominantly deal with the interest of exchange.

a. Interest of Debt/loan/credit (Borç faizi/ riba al-dain/ ربا الدين)

The interest of debt is an extra payment added to the principal in return for a certain term or for the extension of the term whatever the origin of this debt: be it a loan, price of a purchase, or any other liability. This extra payment is usually a predetermined rate of the principal.

This percentage or any other kind of extra charge is paid to the creditor/lender by the borrower independently of the outcome of the business at which the loan/debt is employed, regardless this outcome is very high, very low, zero, or even minus.

The interest of debt occurs in any transaction that has the following two elements:

1. The existence of a debt of one party for the other party whatever its origin is (money, goods, or any financial liability).

2. Stipulating an extra payment as money, goods, financial liability, or any kind of benefit to be paid in addition to the debt during the repayment of the debt.

For instance, consider a scenario where a loan of TL 1000 is given with the stipulation that it will be repaid as TL 1100 after one year, with a 10% interest rate. The additional TL 100 in this case represents *the interest of debt*.

² As in the case when a tone of iron is sold for the same amount (a tone) of iron on a deferred basis; let alone a tone of iron for a greater amount of iron delayed. Here, interest emerges as a potential and prospective value difference between the two items. This discrepancy arises due to the delayed delivery of one of the items. Time plays a crucial role in this value differentiation between the present and future exchanged items; Consequently, it leads to a potential surplus in one of the items when compared to the other. Recognizing the uncertainty surrounding the realization of this potential surplus, Islam prohibits all forms of delayed sales in principle. By doing so, it aims to maintain fairness and prevent exploitation in economic transactions. We will explore the effect of term and time on interest further in subsequent discussions.

However, there is no direct equivalent for TL 100; if such an equivalent exists, it is not precisely TL 100. This discrepancy highlights a value inequality and the possibility of gratuitous value transfer.

Furthermore, the concept of interest of debt extends beyond straightforward monetary transactions. For instance, it may involve lending money to a borrower under the condition that repayment occurs in a different location, thereby avoiding the logistical burden of physically moving funds or mitigating the risk of loss. Similarly, some lenders may offer loans provided that the lender can reside rent-free in the borrower's house.

The basic reason for the prohibition of the Interest of Debt by the Koran

In the interest of debt/loan, either interest payer/borrower or interest earner/lender but one of the two inevitably suffers injustice as clearly stated in the Koran³ with its indirect meaning, “If you do not give up interest either you deal unjustly or you shall be dealt with unjustly.” (Baqara, 2/279; Özsoy, 1993: 46)

The verse from the Quran, “Either you deal unjustly or you shall be dealt with unjustly” suggests that fairness in interest-bearing transactions is paramount. The Quran forbids interest because it introduces uncertainty and inequity: the profit from a loan-funded business is not guaranteed, nor is the amount of profit known in advance. Setting a fixed interest rate from the beginning creates an imbalance, making it impossible to share the results of the loan fairly. As a result, one party, either the lender or the borrower, is bound to suffer a loss. This unavoidable risk is why the interest practice is prohibited by Islam.

The inherent unpredictability of business outcomes—ranging from substantial profits to significant losses, or even negative returns—means that in interest-based transactions, one party (either the payer or receiver of interest) is bound to face injustice. This is due to the unavoidable gap between the fixed interest rate set at the beginning and the actual financial result, which can never be perfectly predicted due to human shortsightedness, despite advanced statistical tools. The

³ The verses are as follows: “O you who believe! Fear Allah, and give up what remains of interest, if you are indeed believers. If you do it not, take notice of war from Allah and His Messenger: But if you give up, you shall have your principal amount: Deal not unjustly, and you shall not be dealt with unjustly.” (Baqara, 2/278-9)

ever-evolving economic, political, and environmental landscape further compounds these uncertainties and risks in the business world.

So, while a high interest rate naturally causes a lot of loss to the borrower who pays the interest in unfavorable market conditions, a low interest rate causes a loss to the lender, who receives the interest in good market conditions. A just, balanced result or medium way that both parties are satisfied with is just one of the numerous possibilities.

Since all of the interest-based transactions have inherently the characteristics of harming one of the parties involved, payer or receiver, any kind of extra payment above the principal is considered as interest/riba and prohibited by the Koran, regardless of this extra payment is termed 'simple' or 'compound interest', or is referred to as 'rent', 'profit', 'return', 'revenue', or any other term in various languages, such as 'faida / فائدة' in Arabic, or 'faiz' or 'nema' in Turkish.

In short, different kinds or names of interest do not exclude it from the scope of the interest/riba that is strictly prohibited by the Koran as long as it is a predetermined rate of the principal or any kind of extra payment over it. This is because there is an inevitable injustice and unfairness in all kinds and varieties of interest, which hurts sometimes the interest payer and sometimes the receiver.

Historically interest payers have been in focus and all the criticism has come for the sake of defending them. The change in the roles, that is, the fact that it is not only petty businessmen and the consumers but also the banks and large corporations who pay the interest, caused that narrow and *one-sided criticism of interest* to soften over time. So, many scholars, economists, and even some theologians attempted to justify interest through various and incongruous arguments.

Whereas, not only the payers but also the receivers of interest are subject to unfairness and injustice in the case of any interest-bearing transaction. Shouldn't we take into account the situation of the lender, who is wronged due to low interest, even though very high profits are made with his own money, as well as the debtor who is harmed by high interest rates to be fair and just to both parties? Here, the Quran completely rejects interest policy, which is a cause of injustice with its all rates, low and high, to protect the rights of both parties, in an all-embracing manner.

This kind of interest is called riba al-jahiliyya (jahiliyya interest / ربا الجاهلية) because it was used by Arabs when Islam arrived, and is called riba al-nasih (interest of delaying / ربا النسيئة). It

is prohibited directly by the Koran and confirmed repeatedly by the Prophet. The Prophet stated the following in the Farewell Sermon:

“... *My companions! All types of interest have been abolished; they are under my feet. However, you must pay the principal so that neither you inflict inequity nor you suffer it. Allah has forbidden you to take and give interest. All types of this atrocious practice that comes from the pre-Islamic times (Jahiliyya) are under my feet. The first interest I have abolished is the interest of Abbas bin Abdulmuttalib (the Prophet’s uncle).*” (Zebidi, 1981: 10/397)

Whether the rate of interest is low or high, whether it is simple or compound, whether it is for consumption or production, it does not make any difference about the fact that interest is forbidden. All of the Islamic schools of jurisprudence/law, Sunnis or Shias, unanimously agree about it (Khan, 1984: 31).

Credit and deposit interests of modern banks are covered by the interest of debt, which is the most widespread and debated kind of interest known to all. The credit interest and deposit interest, which come to mind when discussing interest today and generally in capitalism, are included in the interest of debt in Islam. Since a certain amount of extra payment is made to the principal at the end of a specific term, there is no difference between the interest prohibited by the Koran and today’s bank interests, whether paid or received by them, as well as interests of bonds and securities.

b. Interest of Exchange/sale/trade (Alış-veriş faizi / Riba al-bai‘ / ربا البيع)

Before delving into the interest of exchange, it is necessary to state that *selling/ exchanging* and ‘*lending without return (kard-ı hasan)*’ are two different contracts. This is because term/maturity is binding in purchases and transactions, but not in loans without return. Hence, in a deferred sales contract, the price of the goods cannot be claimed until the maturity date expires. Interest-based transactions are among the most important binding purchase-sale and lending contracts.

The *interest of exchange* is the kind of interest that occurs when goods or currencies are bought and sold hand-to-hand or to a fixed term. The rules for the interest of exchange, an interest that was unknown to humanity before, were determined by the Prophet (pbuh)⁴ through the hadiths as a sign of giving great importance to the concepts of ‘right’, ‘justice’, and ‘equity’.

⁴ pbuh is the abbreviation of “Peace Be upon Him”.

The interest of exchange occurs in the exchange of goods for each other and in the exchange of money and foreign currencies. The interest of exchange is well defined in summary by the following hadith⁵ of the Prophet (pbuh):

“You should sell gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt, like for like, equal for equal, and hand-to-hand; if the classes (genus) differ, then you may sell as you wish, provided that the exchange is hand-to-hand.” (Muslim, Musaqat, 81; Abu Davud, Buyu’, 12)

This saying of the Prophet Muhammad (pbuh) is called “*the Hadith of Six Things*”.⁶ Although this hadith seems very simple and as if describing simple trade relationships in the VII. Century Arabian markets, it is actually very comprehensive and includes vast meanings.

In this hadith, the Prophet (pbuh) miraculously summarized interest/riba, which is complex and has many varieties, in a way that only a prophet could do. So much so that this hadith even includes the interest of debt, which is the only type of interest mentioned in the Quran. He revealed the rules that prevent the emergence of interest, an unrequited transfer of value, and stated that if these rules are not followed, many interest-bearing transactions will occur.

In other words, *instead of listing detailed examples of dozens of interest-based transactions, the Prophet (pbuh) opted for brevity by outlining a few essential rules to avoid any interest-based transaction.*

With this concise saying, the Prophet Muhammad expresses at least 114 kinds of exchanges, which are,

- the exchange of currency for currency,
- or commodity for commodity,
- spot or on credit,

⁵ عن عبادة بن الصامت رضي الله عنه قال: قال رسول الله صلى الله عليه وسلم: «الذهب بالذهب، والفضة بالفضة، والبر بالبر، والشعير بالشعير، والتمر بالتمر، والملح بالملح، مثلاً بمثل، سواء بسواء، يداً بيد، فإذا اختلفت هذه الأصناف فبيعوا كيف شئتم إذا كان يداً بيد.» رواه مسلم و ابو داود. [حديث: الذهب بالذهب والفضة بالفضة \(alukah.net\)](http://alukah.net)

⁶ Although some writers refer to this hadith as the “Hadith of Six Commodities,” it is incorrect because gold and silver, which are mentioned in this hadith, are not commodities but currencies. Therefore, we appropriately call it the “*Hadith of Six Things.*”

- and for matching (equal) or different quantities.

According to that Prophetic saying, out of these 114 kinds of exchanges, 66 sales bear a religiously forbidden “*interest*.” (See, Ozsoy, 2016: 175-178)

The most typical and comprehensive examples of these 114 kinds are as follows:

Table 1. Monetary Category (All the quantities are hypothetical)

GOLD for GOLD				
100 gr	for	100 gr	on spot	Non-interest
100 gr	for	100 gr	deferred	<i>Interest of term</i>
100 gr	for	101gr	on spot	<i>Interest of surplus</i>
100 gr	for	101gr	deferred	<i>Interest of term</i>
100 gr	for	99 gr	deferred	<i>Interest of term</i>
GOLD for SILVER				
10 gr	for	500 gr	on spot	Non-interest
10 gr	for	500 gr	deferred	<i>Interest of term</i>
10 gr	for	550 gr	on spot	Non-interest
10 gr	for	550 gr	deferred	<i>Interest of term</i>
10 gr	for	450 gr	on spot	Non-interest
10 gr	for	450 gr	deferred	<i>Interest of term</i>

Table 2. Monetary Category in Today's Currencies

US DOLLAR for US DOLLAR				
100 \$	for	100 \$	on spot	Non-interest
100 \$	for	100 \$	deferred	<i>Interest of term</i>
100 \$	for	101 \$	on spot	<i>Interest of surplus</i>
100 \$	for	101 \$	deferred	<i>Interest of term</i>
100 \$	for	99 \$	deferred	<i>Interest of term</i>
TL for US DOLLAR				
300 TL	for	100 \$	on spot	Non-interest
300 TL	for	100 \$	deferred	<i>Interest of term</i>
300 TL	for	101 \$	on spot	Non-interest
300 TL	for	101 \$	deferred	<i>Interest of term</i>
300 TL	for	99 \$	deferred	<i>Interest of term</i>
US DOLLAR for EURO				
130 \$	for	100 €	on spot	Non-interest
130 \$	for	100 €	deferred	<i>Interest of term</i>
130 \$	for	101 €	on spot	Non-interest
130 \$	for	101 €	deferred	<i>Interest of term</i>
130 \$	for	99 €	deferred	<i>Interest of term</i>

All these above rules apply to all foreign exchanges.

Table 3. Category of Goods

WHEAT for WHEAT				
100 kg	for	100 kg	on spot	Non-interest
100 kg	for	100 kg	deferred	<i>Interest of term</i>
100 kg	for	101 kg	on spot	<i>Interest of surplus</i>
100 kg	for	101 kg	deferred	<i>Interest of term</i>
100 kg	for	99 kg	deferred	<i>Interest of term</i>

WHEAT for BARLEY				
100 kg	for	100 kg	on spot	Non-interest
100 kg	for	100 kg	deferred	<i>Interest of term</i>
100 kg	for	101 kg	on spot	Non-interest
100 kg	for	101 kg	deferred	<i>Interest of term</i>
100 kg	for	99 kg	on spot	Non-interest
100 kg	for	99 kg	deferred	<i>Interest of term</i>

All these above rules apply to all fungible goods.

Categories of Money and Goods

In this hadith, there are two categories:

- (1) The money category represented by gold and silver, and
- (2) The goods category represented by the four types of goods mentioned in the hadith (wheat, barley, dates, and salt).

It is also interesting that the Prophet (pbuh) mentioned only gold and silver in the money category.

Today, gold continues to be the most basic, primary, and international money as dear money, while silver has lost its money quality. However, it can be said that silver represents all kinds of secondary and cheap money that emerged and then disappeared from circulation according to the conditions of place and time in any economy. From this perspective, it can be said that the Hadith of Six Items includes a different miraculous depth.

This hadith states that all transactions, regardless of category, must be made hand-to-hand, that is on the spot to avoid interest. Hence, interest does not arise in spot foreign exchanges between different types of money within the money category or in spot exchanges between different types of goods within the goods category (barter).

However, *the Prophet (pbuh) clearly states that the factor of time/term is the most important cause of interest.* According to this hadith, in the exchange of one commodity for another or one currency for another, a value differentiation occurs between the two if the exchange is not spot; it does not matter whether these two commodities or two currencies are of the same or different types, and whether they are equal or different amounts. Therefore, this hadith imposes a broad limitation on forward transactions as we will take below.

Goods Subject to Interest and the Reason for Interest to Occur in them (علة الربا)

Although Islamic scholars agree unanimously that interest is forbidden, there are different opinions about *where and in what conditions it occurs among Islamic fiqh sects* (مذاهب الفقه). These

different views⁷ arise because the *reason for interest* that is accepted for each school, which forms the base for the judgment of interest, is different.

According to most Islamic scholars, the *six types of items* stated in the Prophetic saying are not expressed to restrict the interest only with these items, but to give examples because *all these items are fungible*.

That is to say, *the goods and currencies stated in the hadith are subject to interest because of certain qualities; so, all of the goods and precious metals/currencies that have the same qualities are subject to interest*.

This caused the emergence of a subject called '*reason for interest*' (علة الربا)⁸ in Islamic jurisprudence. *The reason for the interest is an obvious, definite, and perceptible characteristic or feature that forms the base for the judgment of interest*.

According to the Islamic approach, goods are divided into two kinds in terms of being or not being subject to interest, since not all goods are subject to interest:

- *Fungible goods* (mislî mallar / الاموال المثلية)
- *Nonfungible goods* (kiyemî mallar / الاموال القيمة)

All fungible goods⁹ are subject to interest. A *fungible good* is a *standardized commodity or money* that is freely interchangeable and easily replaceable with another of the like nature or kind in fulfilling a financial obligation in goods or money that is owed.

Fungible goods are goods with no differences in their units; even if, these differences are not significant because there are similar goods in the markets. They have a market price at which they are freely bought and sold in the market and they can be objectively assessed by weighing, measuring in volume, or counting. Gold, silver, iron, copper, etc. are included in the first group;

⁷ These opinions have been excluded from the scope of our study due to lack of space and the breadth of the subject.

⁸ See for detail, Özsoy, 1993: 104 and more.

⁹ *Fungibility* is the property of a good or a commodity whose individual units are capable of mutual substitution. A good is fungible if one unit of the good is substantially equivalent to another unit of the *same* good of the same quality at the same time and place. Examples of highly fungible commodities are crude oil, wheat, orange juice, precious metals, and currencies. A good is liquid and tradable if it can be easily exchanged for money or another *different* good. A good is fungible if one unit of the good is substantially equivalent to another unit of the *same* good of the same quality at the same time and place. (Wikipedia contributors. (2024, February 22). Fungibility.

In *Wikipedia, The Free Encyclopedia*. Retrieved 14:43, February 26, 2024,

from <https://en.wikipedia.org/w/index.php?title=Fungibility&oldid=1209635509>)

corn, grains, and olives are in the second group. Since the weighing prevails in grains, they are now in the group of weighing rather than measuring in volume in the past. Examples of counting include eggs, watermelons, and melons.

Goods produced in factories nowadays are regarded in the same group as their production and qualities are standardized. So are the fabrics and other woven materials that are assessed by measuring unit: meter. Pots, spoons, books, etc. are assessed by counting. Though not goods, currencies, and all kinds of money, commodity-money inclusive, are naturally fungible and are subject to interest.

Tips to detect an interest-bearing transaction

As goods of interest, the basic features of fungible goods are as follows:

- (a) They can be *objectively measured* by commonly accepted units of measure,
- (b) When they are exchanged with/for each other, they can be compared with each other if they are of the same kind, and
- (c) Thus, it is possible to determine that the two items exchanged are equal, or either (one of two) is fewer/less or more than the other.

Hence, ‘interest/riba’ comes into view either as an *actual quantitative difference* in one of two items exchanged in the spot exchanges or it is a *potential/prospective value difference* that appears in the forward/ futures transactions. That potential value-inequality mostly turns out to be a countable/measurable realized difference in either of the two items at the end of the procedure.

Thus, it is quite easy to detect a value transfer in the following (a), (b), and (c) cases because one of the items exchanged is either fewer or greater than the other. Then this difference in the quantity constitutes the interest/riba.

GOLD for GOLD					
(a)	100 gr	for	101gr	on spot	<i>Interest of surplus</i>
(b)	100 gr	for	101gr	deferred	<i>Interest of term</i>
(c)	100 gr	for	99 gr	deferred	<i>Interest of term</i>
(d)	100 gr	for	100 gr	deferred	<i>Interest of term</i>

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As for the case (d), even though there is no difference in quantity, there may arise a value difference between the two items due to the term. This is because the market price of gold may change from the present time to the fixed maturity.

Say, if the present price of gold is \$10 for one gram, it may rise to \$11. Thus, this price change of \$1 constitutes *the interest of term* as a value transfer from the seller to the buyer.

This applies to the following deferred exchanges between gold and silver since the present and future rates of gold and silver may change regardless of only one or two of them are deferred:

GOLD for SILVER				
10 gr	for	500 gr	deferred	<i>Interest of term</i>
10 gr	for	550 gr	deferred	<i>Interest of term</i>
10 gr	for	450 gr	deferred	<i>Interest of term</i>

As for the cases of interest in nonfungible goods; a *nonfungible* (*kiyemî* / قيمي) *good* is a commodity that is *subjectively evaluated* by individuals. Nonfungible goods are not freely exchangeable for, or replaceable by, another of the like nature or kind in the fulfillment of a financial obligation. They do not have a certain established market price since they are evaluated by subjective and individualistic decisions. Real estate, historic objects, houses, animals like horses, camels, cows, sheep, precious stones, manuscripts, antiques, etc. are examples of nonfungible goods.

When nonfungible goods are compared with, and exchanged for, each other (or with/for fungible goods) it is not possible to specify a quantitative or potential value difference between the two exchanged items. So, it is not possible to objectively declare that this one is more or fewer/less than the other in quantity, size, weight, measure or value, which can be specified and determined as 'interest'.

For example, a horse can be changed for a car hand-to-hand, but not on a forward/deferred basis. Thus, *in spot sales, nonfungible goods are not subject to interest. But they are subject to interest of delay in the case of forward/credit sales*; because the value differentiation that might not be taken seriously by subjective evaluation in a spot sale may turn out to be a considerable value change, thus a cause of disagreement and conflict between parties when it is a forward sale.

To put it in short, *the goods, precious metals inclusive, that are subject to any kind of interest are the fungible goods in both spot and forward transactions; and the nonfungible goods are not liable to interest except the interest of term in forward sales.*

The Reason for Interest to Emerge in Gold and Silver (Money)

The reason for interest to appear in gold and silver is different from the other four because of their *monetary characteristics* and quality. In other words, their most specific character is their being money, hence they are units of value for all other goods. As a result, *gold and silver are subject to interest because they are money, and the main function of money is its being a unit of measure like a measure of weight and length.*

Thus, anything that has the function of money shall be subject to interest if they are not properly exchanged in spot or forward transactions as instructed by the Prophet (pbuh). The result of this reasoning is that money has to have the same value, today and tomorrow, like all other units of measure as one meter is 100 cm as well as one kg is 1000 gr. yesterday, today, and tomorrow. Its value should not change from today to tomorrow like elastic materials that stretch or shrink over time. Its value is not measured by other things, but it always measures all other goods. *Thus, 100 liras should be exchanged for 100 liras today and tomorrow if it is a unit of value to measure other things, not a commodity to be measured by other measures.*¹⁰

From the Islamic standpoint, *monetary capital* is like a fertile female not producing offspring unless she mates with her male. It is a lifeless and dull entity whose productivity is only possible if labor/enterprise sets it in motion. Otherwise, it does not increase simply with time passing. *The productivity of monetary capital depends on its association with goods, that is, it is indirect, potential, and uncertain.*

If it is desired to earn money out of monetary capital, it is only possible by converting it into goods and then by converting these goods to money again. In this case, the increase or decrease in the monetary capital, i.e., the profit or loss, only depends on the increase or decrease in the market value of the goods to which it is converted. In short, *no time value for money but for goods.*

¹⁰ As for the inflationary cases, the loss of value in money caused by inflation may be paid/compensated according to the realized, backwardly/retrospectively calculated, and officially announced inflation figures (i.e., according to the realized inflation rate that appeared between the time the debt was borrowed and the time of payment) or the debt must be paid by indexing it to goods or precious metals that do not lose value.

Thus, if a direct, actual, certain, and fixed income is assigned to monetary capital without linking/converting it to goods in advance in the production process, the connection of this income with the real economy will be distorted.

The Reason for Interest to Emerge in Goods

Since the goods subject to interest are fungible in principle, the reason for interest to appear in them is their common (or most characteristic) features such as their being of the same kind and being measured by the same unit of measure. These features help us notice the quantitative difference causing interest between two items exchanged on the spot or the potential value difference between two items traded to a certain maturity. Now we can move on to the types of interest of exchange/sales.

The Types of Interest of Exchange

The interest of exchange encompasses two subtypes: ‘*interest of surplus/excess*’ (riba al-fadl) and ‘*interest of term/delay/deferral*’ (riba al-nasiah).

a. The interest of Excess/surplus (Fazlahik faizi / ربا الفضل). It is the quantitative excess found in one of the exchanged items when the same kinds of money or goods are exchanged hand-to-hand, that is, in the spot market.

b. The interest of Term/delay/deferral (Vade faizi / ربا النسيئة). Except for cases where money is involved, the interest of term arises in *forward sales* where one or both of the goods are deferred/on credit; it does not matter whether the items are of the same or different kinds, whether the amounts are equal or different. There is no difference between fungible goods and nonfungible goods. It is called interest of term/deferral.

The cases of ‘interest of excess/surplus’ and ‘interest of term’ in the Islamic jurisprudence and the reasons for these cases to be interest (علة الربا) can be determined as follows:

1. The quantitative excess in one of the two fungible goods or precious metals of the same kind in their cash exchange is called interest of surplus/excess. It is not acceptable to see this quantity difference as a response/equivalent to quality, carat, or workmanship.

In other words, when exchanging two goods of the same kind, pricing the quality in one of them by the amount difference in the other is revealed as interest.

Likewise, in exchanging two precious metals of the same kind, pricing the workmanship in one of them by the weight difference in the other is revealed as interest.

*The reason for interest to appear here is the goods or coins being of the **same kind** and the **same unit of quantity** (measure, weight, number, or length); that is, their being measured with the same unit of measure. The sameness in kind and in measure causes a clear and noticeable interest relationship between two exchanged goods or coins when one of them is different in quantity.*

Therefore 10 units of low-quality wheat cannot be exchanged for 8 units of high-quality wheat. Likewise, 10 grams of 24-carat gold cannot be sold for 12 grams of 18-carat gold.¹¹ The difference in quantity cannot be priced/compensated for craftsmanship. For instance, 10 grams of processed/worked gold cannot be exchanged for 12 grams of unprocessed one. The two grams in both examples are interest of excess/surplus despite the difference of carat and/or craftsmanship.

Why Quality and Workmanship are Neglected in the Interest of Surplus (ربا الفضل)?

There may be a need to exchange two goods of the same kind only because of the difference in their quality, carat, or workmanship. Other than that, such an exchange has no meaning.

Although quality, carat, and craftsmanship have a market value from the Islamic point of view, it is understood that they are not completely regarded as *goods* or *standard values*. Therefore, these values are not accepted to be matched with a certain amount of the *goods* containing them for which they are to be exchanged; because it is difficult to use *objective* criteria to measure these values whose *subjective* characteristics are more apparent. In other words, *quality in goods and craftsmanship in precious metals are not accepted to be priced with the objective quantity difference of the goods containing those values.*

The reason for this prohibition may be the possibility that these values can also be a stepping stone to the idea of interest in other transactions. For example, the quality, carat, and workmanship may be arbitrarily matched with interest, a value transfer, that is planned to be dealt with between two people.

For example, when a jeweler is asked to borrow 100 grams of gold, who intends to make a profit from this business may give 90 grams of gold and claim that this gold also contains 10 grams of workmanship value and count 90 grams as 100 grams. The borrower who reluctantly accepts this may tend to pay back 80 grams of gold by counting it as 100 grams on the grounds that it involves 20 grams of workmanship. Thus, disagreements would arise between people and there

¹¹ However, if there is standardization in the carat of gold, taking the carat difference as the price of the gram difference may cease to be interest.

would be no measure left in exchanges. For this reason, it has been ordered that the market value of quality and workmanship should be measured not as goods of the same kind, but with money, which is more objective.

When the Prophet (pbuh) learned that a quality date offered to him was exchanged unequally for dates of low quality, he declared that this was interest/riba (Muslim, Musaqat, 94, 95, 96, 97). Thus, he forbade the exchange of different quality goods of the same kind in different amounts, e.g., 10 units of high-quality dates with 15 units of low-quality dates; instead, he commanded the selling of the low-quality goods in hand and the purchase of other high-quality goods of the same kind with that money (Buhari, Shirkah, 10). Likewise, If 11 grams of unprocessed gold is to be exchanged for 10 grams of processed gold; first, 11 grams of unprocessed gold must be sold for money, and then processed gold must be purchased with that money.

Time/Term is the Most Important Reason for Interest

2. Interest of term/deferral/delay occurs in every forward sale where delivery of one or both of items are futures (except when money is included); regardless of the kinds of items, same or different, and regardless of their amounts, equal or different. The reason for interest here is 'term', namely 'time' only.

Therefore, *even if the amounts are equal wheat cannot be exchanged for wheat, nor barley for wheat, nor cement for iron* on a forward (delayed or deferred) basis. Even if only one of two items is futures, it is enough for interest to occur.

The importance of *term* or *time* derives from the possibility that the value balance, which is established between two items by the parties –seller and buyer-, may shift and be destroyed in the forward sales, and value differentiation/ disparity/ inequality may take place between the two exchanged/traded goods.

Some of the significant causes of value differentiation due to time/term can be listed as follows:

(1) Instability of the market conditions, -that is, rises and falls in the money and commodity markets-,

(2) the loss of opportunity of the seller/creditor because of their deprivation of using their money or commodity during the term, and

(3) the unexpected increase of the burden on the debtor because of the sudden and unpredictable value changes in the borrowed money or commodity in question.

Therefore today's 100 units of commodity (or money) may turn to a *value* of 110 and or 90 units tomorrow. With these properties, *term or time is the most important cause of uncertainty and, hence, of conflict*. So, term/time is the main reason for interest in the forward (on credit/delayed/deferred) sales.

While nonfungible goods are not subject to interest of excess/surplus, they are liable to *the interest of term/ deferral/ delay*. For example, a historical real estate, say a small house, in Istanbul can be immediately sold for a ten-acre plot of land in Konya. But this sale is not permissible on a forward basis. This is due to the possibility of unanticipated value change in one of the properties. That value change may cause disappointment in the related party who considers him/herself in loss, which gives way to probable disputes between the two parties.

While there is a possibility of dispute in the forward sales of non-fungible goods, the prices of which are mostly determined by individual subjective decisions, not by market supply and demand this possibility is eliminated in spot sales.

3. In forward sales, if one of the items exchanged is money, the interest relationship is terminated, regardless of whether money or goods are futures.

So, if one of the exchanged items is money and the other is a commodity, no interest occurs in this sale even if the delivery of one of the two is futures/delayed; no matter which one –money or commodity- is delayed.

The reasons that interest does not appear here are:

(1) The priority and privilege given money in sales because of its being, not a commodity but, a unit of measure since a unit of measure does not change over time, thus it is accepted to be able to measure the value of the commodity for which it is exchanged.

(2) Money and commodity are of different kinds, that fact cutting off the interest relationship between the two; thus, it is not possible to compare them with each other in a way that a surplus/excess can be found in one of them against the other, making it impossible to state that this one is more or fewer/less than the other.

(3) People's need for credit purchases because they may not always have cash/ready purchasing power while their needs persist and urge. So, money is accepted to be the best solution for this because of its superiorities to goods.

Hence, interest relationship does not appear in money-for-commodity or commodity-for-money transactions on a forward basis as well as in hand-to-hand sales.

So, we can define *the interest of exchange* in short as follows:

“The interest of surplus/excess (riba al-fadl) is the quantitative excess in one of two fungible goods of the same kind and same unit of measurement, which are exchanged on the spot, regardless of the difference in quality between them.

The interest of term/delay/deferral (riba al-nasia) is a probable/ prospective value differentiation between two items arising from time/term when one of the exchanged items is deferred irrespective of their kinds and being fungible or nonfungible.”

All these rules apply to national or foreign currency transactions regardless of whether these transactions are in between the same currency or between different currencies.

Thus, TL for euro, or US dollar, should be exchanged on the spot basis at the current exchange rate. Any future or forward sale between different currencies causes interest due to the possibility of any change in the exchange rate because of time.

For example, if the exchange rate between the US dollar and TL is 1 for 1.1, 100 US dollars should be sold for 110 TL hand-to-hand, without any delay. If one of the currencies is delayed, for example, 100 US dollars in cash is exchanged for deferred 110 TL, there arises interest because of the possibility of a change in the exchange rate of two currencies. Hence, the transaction may result in an unexpected loss to the detriment of one party and in favor of the other party as a zero-sum game.

Financial Crisis Preventive Suggestions by the Prophet Muhammad (pbuh)

A concrete example illustrating the burst of the financial bubble that led to the 2008 financial crisis involves the sale of financial certificates with varying interest rates and different timeframes.

For example, the sale or the loan of \$100 for \$105 for one year term bears a value transfer of 5 dollars from one party to the other. Another example is the sale of a financial certificate of \$100 with a 5% rate of interest for a year term in return for another certificate of \$100 with a 10% rate of interest for two years term bears a value transfer from one party to another by the size of the interest rate.

The critical point is that a *financial bubble* emerges when the nominal increase in the value of these financial certificates (due to interest payments) is not aligned with real value growth in

underlying assets, such as houses. Historically, houses have frequently served as the underlying assets for financial certificates and derivatives in the United States and other countries.

The principles included in the Hadith of Six Things could prevent the bubbling that occurred in the 2008 Global Financial Crisis and similar ones. Therefore, it could be said that this hadith looks at today rather than the past. The following suggestions could be derived from the hadith to prevent the process of creating financial bubbles:

- avoiding all delayed sales of financial instruments
- and keeping them in the vaults of the bank until they are paid by the clients,
- If financial instruments with different interest rates and times are to be exchanged for each other, the transaction must be done at face value.
- Different financial instruments can be exchanged for each other at any price if the transaction is done on the spot. That applies to the sale of financial instruments for money provided it is done on the spot (Ozsoy, 2016: 180-182).

From the suggestions given above, the measures of (1) avoiding any delayed sales of financial instruments and (2) securely storing them in bank vaults until clients settled their payments shielded the Turkish economy from the repercussions of the 2008 global financial crisis. Consequently, Turkey remained largely unaffected by the crisis. However, she faced downgrades from Standard and Poor's and Moody's due to the absence of a local derivatives market before the crisis, perhaps even though there was a desire for its establishment until then. [Remarkably, Turkey later earned admiration for being one of the least impacted countries during the crisis.](#)

Conclusion

The issue of interest has been dealt with by Islam with ultimate and precise care because of its being clearly and strictly forbidden by the Koran and the Prophet (pbuh). Besides the *interest of debt* known by everybody throughout human history, the Prophet Muhammad (pbuh) introduced *the interest of exchange* that occurs in the exchanges of goods and currencies on the spot and/or forward sales as a sign of great sensitivity to the rights of both parties, regardless of their identities. The terms 'fungible' and 'nonfungible goods' are quite crucial and functional in comprehending the notion of interest from the Islamic perspective.

The interest of debt is an extra payment in return for a certain term, or for the extension of the term, in addition to the principal/capital amount, whatever the origin of the debt -be it a loan, the

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price or cost of purchased goods, or any other liability-. This extra payment is usually a predetermined rate of the principal. This percentage or any other kind of extra fee is paid to the creditor/lender independently of the outcome of the business at which the loan/debt is used, regardless of whether this outcome is very high, very low, zero, or even minus. Since interest of debt is naturally a reason for an unavoidable inequitable distribution of income in any transaction, Koran explicitly identifies interest with injustice either for the borrower or the lender, thus prohibiting it just to protect the rights of both in an all-embracing manner.

If we liken interest (riba) to a double-edged knife, it can harm either the debtor or the buyer, or sometimes the creditor or the seller. However, it consistently inflicts a loss upon one of the parties involved

Interest of exchange is subdivided into two kinds. *The interest of surplus* is the quantitative excess in one of the exchanged items of the fungible goods, which are of the same kind and of the same measure of quantity, regardless of the quality difference between them. *The interest of term* is a probable/ prospective excess/surplus arising from the time when one of the exchanged items is delayed irrespective of their kind and their being fungible or nonfungible.

In the Islamic approach, except for the exchange of foreign currencies, money is not treated as a commodity to be bought and sold. This approach prevents the economy from reverting to a primitive barter system where money itself becomes a traded commodity alongside other goods. Instead, money serves as a definitive unit of value for all other goods.

The primary function of money lies in its role as a unit of measurement, like other measures of weight and length. Consequently, its value should remain stable over time, unlike elastic materials that expand or contract. For instance, just as one meter consistently equals 100 centimeters and one kilogram remains 1000 grams, money's value should remain constant.

Exceptions arise in cases of inflation, where money's value is indexed to a basket of goods. However, its fundamental purpose remains unchanged: to measure the value of all other goods. Therefore, if money serves as a unit of value for measuring other items—not as a commodity to be measured by other units—it should consistently exchange at par. In other words, 100 liras today should be equivalent to 100 liras tomorrow.

To promote a balanced monetary economy and ensure fairness between the financial and real sectors, perhaps we should consider replacing the term 'time value of money' with 'time value of goods'—a concept measured by money

Concisely and extraordinarily expressing all kinds of interest-bearing transactions (114 pieces) in two sentences, Prophet Muhammad's "*Hadith of Six Things*" offers suggestions to avoid any bubble-building process and financial crises.

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