

95515 - Is it permissible to stipulate that the borrower must pay the difference in value if the currency drops?

the question

I am student in a British university. As a British student, the government here gives me a loan to complete my study. This loan is not interest-based, as it is mentioned in the terms and conditions. It will be also considered cancelled after 25 years of taking it. It must not be paid unless the student starts working with a salary of at least 15 000 pound a year. But it includes what is called inflationary interest, meaning that if the currency price drops by 0.01%, then I will have to pay this difference.

I have asked a lot, many fatwa councils in Europe said that it is permissible loan, as well as many scholars did. But some scholars said it is haram, I do not know what to do?.

Detailed answer

It is not permissible for the one who borrows money from anyone to commit himself to repaying the loan based on the value of the currency at the time when the loan is repaid, rather he must repay the loan with the same value as it had at the time he took it. This is the view of the majority of scholars both classical and modern, and it is what is stated in fatwas issued by contemporary fiqh councils. This applies if the currency remains in circulation, even if the exchange rate changes.

But if the currency is abolished altogether and the people no longer use it, in this case there are different scholarly opinions.

Some scholars say that the borrower must pay back the value at the time of the loan.

Some say that what counts is its value at the time the currency is abolished.

Others say that what matters is its value at the time of paying it off.

Shaykh Muhammad ibn Saalih al-'Uthaymeen (may Allaah have mercy on him) said:

The view that is most likely to be correct is the view that what counts is the value at the time the currency is abolished, because he was responsible to pay ten fuloos [a kind of currency] until it was abolished, i.e., if he had asked him for ten fuloos one minute before it was abolished, he would have given him ten fuloos, and it would have been binding on the lender to accept it. So if that is the case, we should estimate the value to be paid at the time when it is abolished. End quote.

Al-Sharh al-Mumti' (9/104).

This is the ruling in the case of the currency being abolished and another being used instead. But if the currency is still valid and people are still using it, then it must be repaid as it is, even if the rate of exchange is different and even if the purchasing power has changed, and even if there is inflation. This is stated in a report by the International Islamic Fiqh Council which belongs to the Organization of the Islamic Conference, which is sufficient and good.

Statement no. 115 (9/12)

Re:

Inflation and change in currency values

The Journal of the International Islamic Fiqh Council which belongs to the Organization of the Islamic Conference in its eighteenth session held in Riyadh, in the Kingdom of Saudi Arabia, 25 Jumaada al-Aakhirah - 1 Rajab 1421 AH (23-28 September 2000 CE).

After studying the closing statement of the Economic Fiqh Council for the Study of Inflation (in its three sessions in Jeddah, Kuala Lumpur and al-Manaamah) and its recommendations and suggestions, and after listening to the discussions on this topic with the members and experts of the Council and a number of fuqaha', the following has been determined:

1 - Affirmation of the previous decision, no. 42 (4/5) which reads as follows:

“What matters with regard to repayment of undisputed debts in a certain currency is that they should be paid in the same currency, not the equivalent value, because debts are to be paid off in the same form as the loan was given. It is not permissible to connect debts owed, regardless of the nature of the debt, to changes in the level of prices.”

2 - In the event that inflation is expected at the time of signing the contract, the contract may be drawn up based on a currency or form of wealth other than that which is expected to fall, such as basing the contract on the following:

- (a) Gold or silver
- (b) A similar product
- (c) A basket (group) of similar products
- (d) Another, more stable currency
- (e) A basket (group) of currencies

Payment of the debt in the examples given above must be in the same form as that on which the loan was given, because the borrower is not obliged to pay back anything more than what he actually received.

These cases are different from the case which is forbidden, whereby the two parties involved in the transaction do the deal on the basis of giving in one currency on condition that the debt is paid back in another currency or a basket (group) of currencies. The prohibition on this type of loan was issued in the Council's statement no. 75 (6/8).

3 - It is not permissible in sharee'ah to agree when drawing up the contract to connect payment of the debt to any of the following:

- (a) a mathematical formula
- (b) the index of living expenses or any other index
- (c) gold or silver

- (d) the price of a specific item
- (e) the average gross domestic product
- (f) another currency
- (g) the rate of interest
- (h) the average price of a basket (group) or products

That is because this kind of connection may lead to many types of risk and unknown factors, to such an extent that neither party knows what is owed or expected to be paid, so the condition of clarity which is required for contracts to be sound will not be met.

If these things to which the debt is connected increase in value, that will result in differences between what is owed and what is expected to be paid, and if the contract is based on that, it is riba.

This statement by the Fiqh Council is in accordance with that which was stated in fatwas by the Standing Committee, Shaykh 'Abd al-'Azeez ibn Baaz, and Shaykh Muhammad ibn Saalih al-'Uthaymeen (may Allaah have mercy on them).

The Standing Committee for Issuing Fatwas said:

The borrower must pay the pounds that he borrowed at the time when the lender asks for them, and the difference in purchasing power does not affect anything, whether it has increased or decreased.

Fataawa al-Lajnah al-Daa'imah (14/146).

See also the answer to question no. [23388](#), as it deals with a similar question. The two answers complement one another.

And Allaah knows best.