# 23388 - Paying interest because of inflation is riba

## the question

I know that taking interest is haraam,but I would like to know what does islaam say about taking interest based on inflation.For example,if you borrow 50 pounds and you want to return the 50 pounds in 5 years time,the value of the 50 pounds that you borrowed would be higher in 5 years time.Therefore you payback the equivalent amount to the 50 pounds that you borrowed.I ask this question because I want to know if it is allowed for me to take out a student loan which has interest based on inflation.

## Detailed answer

Praise be to Allah.

Firstly:

If you borrow 50 pounds from a person or an institution for a period of five years, you have to pay back this amount in the same currency, even if its value goes down (because of inflation), so long as transactions in this currency are still valid.

We have already explained in Question no. 12541 that paying extra on a loan because of devaluation of the currency is haraam and is regarded as a kind of interest. This is the view of the majority of fuqaha'.

Secondly:

Whoever takes a loan in one currency and agrees to pay back in another, has fallen into riba, because what he has really done is to sell one kind of currency now in return for another currency to be paid later on. This is haraam and is one of the two kinds of riba which is called riba al-nasi'ah.

But the borrower may agree with the lender – at the time of repaying the loan – to hand over the money in a different currency. In the example referred to above, when five years have passed and you have to pay back 50 pounds, you can agree with the lender – on the day of paying back – to give him the equivalent in another currency, such as dollars, but that is subject to the condition that it be at the exchange rate that is current on the day you pay it back.

Thirdly:

With regard to taking a loan with interest based on inflation. We have already stated that paying interest on a loan to make up for inflation is haraam, and that it is a kind of riba. Based on this, it is not permissible for you to take this loan, because the Prophet (peace and blessings of Allaah be upon him) cursed the one who consumes riba, the one who pays it, the one who writes it down and the two who witness it. He said: “They are all the same.” Narrated by Muslim, 1598.

And Allaah knows best.