

12541 - It is haram to pay interest because of inflation

the question

Is it harm to pay interest based on inflation.

Detailed answer

Yes, it is haram to pay interest on loans even if that is because of inflation.

The scholars are agreed that if it is stipulated that a loan be repaid with something extra, that is riba (usury) which is forbidden by Allah and His Messenger.

Ibn Qudamah said in al-Mughni (6/436):

Every loan in which it is stipulated that something extra be repaid is haram, and there is no difference of scholarly opinion on this point.

Ibn al-Mundhir said: They are unanimously agreed that if the lender stipulates that the borrower pay something extra or give him a gift, and gives the loan on the basis of receiving something extra, that is riba.

It was narrated that Ubayy ibn Ka'b, Ibn 'Abbaas and Ibn Mas'ood forbade loans that brought benefits. End quote.

The scholars stated that the borrower must return the same amount of property as he borrowed, regardless of whether its value on the day of paying it back is higher or lower than it was on the day that he borrowed it.

But Imam Ahmad (may Allah have mercy on him) made an exception in one case, which is if the ruler has forbidden dealing in the currency in which the loan was made, in which case its value on the day of the loan should be worked out, then the loan should be repaid in the new currency. That is because a ban on dealing in it means that it is no longer valid and no longer has any value.

Ibn Qudamah said in al-Mughni (6/441):

We mentioned that the borrower should return the same amount, whether the price has fallen or risen, or is still the same. ... If the loan was in coins that the ruler has banned, and they are no longer dealt in, then the lender is entitled to the equivalent value, but he does not have to accept it. ... Maalik, al-Layth ibn Sa'd and al-Shaafa'i said: He is not entitled to anything except what he lent, because that is not because anything happened to what he lent, so it is like a decrease in its price. The evidence for what we have said is that if the ruler bans it, then it cannot be spent and it is no longer valid. So it is as if part of it has been destroyed or lost. But as for a fall in prices, that does not mean that it cannot be repaid, whether it is a lot or a little, because nothing has happened to it, rather the price has changed. It is like wheat, when the price for it rises or falls. End quote.

And Allah knows best.