68842 - The value of the currency has changed, how can the loan be repaid?

the question

I gave a friend of mine a “goodly loan” (i.e., interest-free). I gave him the loan in Saudi riyals, and now when the time has come to pay back the loan, the Egyptian pound has fallen against the Saudi riyal. This friend of mine wants to repay the loan in Egyptian pounds, on the basis of the exchange rate of the pound against the riyal at the time when he took the loan, which means that the money I get back will be less than what he received. I rejected that and said to him: “You received the money in Saudi riyals; pay the loan back to me in Saudi riyals, as you received it, for loans should be repaid in the same form as they were given. It is sufficient that I deprived myself of any opportunity to invest my money, which would have brought me returns, i.e., from halaal business activities. I gave you a ‘goodly loan’ for the sake of Allah, may He be exalted, and I helped you with your business, and you did business and made a profit, may Allah bless you.” But he refused to do that. What is the ruling according to Islam? Is he obliged to return my loan in Saudi riyals or not? If the answer is that he must return the loan in Saudi riyals, and he refuses to accept the ruling, what is his standing before Allah? Is the shortfall in my money something that he continues to owe me, that I will be able to demand from him before Allah on the Day of Resurrection, or not? Please advise us about that, may Allah reward you, as repayment of the loan is dependent upon your ruling. May Allah reward you with good.

Detailed answer

Praise be to Allah.

What is required of one who takes a loan from another person in a particular currency is to return it in the same currency, and not pay its value in another currency at the time of taking the loan. In fact, it is not permissible to mention in the contract that repayment will be in a different currency

from that in which the loan was taken. So it is not permissible – for example – for one man to take a loan from another in Saudi riyals, and work out its value at the time of taking the loan, then repay it in Egyptian pounds. But it is permissible to pay the difference between the two currencies if the borrower agrees to that, without obliging him to do that. This is stated in the fatwas of fiqh councils and as been stated by many well-versed scholars.

(a)

In statement no. 42 (4/5) regarding changes in the value of currency, the session of the Islamic Fiqh Council that was held during its fifth conference in Kuwait, 1-6 Jumaada al-Oola 1409 AH/10-15 December 1988 CE, said:

After studying the papers submitted by members and experts on the topic of changes in the value of currency, and listening to the discussion that took place on this topic, and after studying the Council's statement no. 21 (9/3) from its third session, noting that paper currency is fiat money [currency without intrinsic value that has been established as money] in terms of which things may be valued, and that it comes under the same rulings as gold and silver with regard to riba, zakaah, salam transactions (where payment is made in advance) and so on, the Council has determined the following:

What matters when paying off loans that were given in a particular currency is paying back in the currency and paying the same amount, and not paying its value (in a different currency) because loans are to be repaid in the same form as they were given, so it is not permissible to connect debts that one has to pay, no matter what form they took, to the value of whatever was borrowed.

Majallat al-Majma' (issue no. 5, volume 3, p. 1609).

Shaykh 'Abd al-'Azeez ibn Baaz (may Allah have mercy on him) was asked:

A brother in faith gave me a "goodly loan" (i.e., an interest-free loan) of two thousand Tunisian dinars, and we wrote a contract to that effect in which we stated the value of that sum in German currency. After the loan period – which was one year – ended, the price of the German currency

rose, so if I pay him what we mentioned in the contract, I would have to give him three hundred more Tunisian dinars than I borrowed. Is it permissible for my lender to take this extra amount, or is it regarded as riba? Especially since he wants me to pay in German currency so that he can buy a car from Germany.

He replied:

The lender of a “goodly loan” is not entitled to anything except the amount he loaned to you, which was two thousand Tunisian dinars, unless you are happy to give him more, and that is fine, because the Prophet (blessings and peace of Allah be upon him) said: “ The best of people are those who are best in paying off debts.” Narrated by Muslim in his Saheeh; it was narrated by al-Bukhaari as follows: “Among the best of people are those who are best in paying off debts.”

With regard to the contract mentioned, it is invalid and not binding, because it is not in accordance with Islamic teachings. The Islamic texts indicate that it is not permissible to sell a loan at the time of paying off the debt except for the same amount as was borrowed, unless the borrower agrees to give something extra by way of kindness and reward to the lender, because of the saheeh hadith mentioned above. End quote.

Fataawa Islamiyyah (2/414).

Shaykh Ibn ‘Uthaymeen (may Allah have mercy on him) said in response to a similar question:

What he should do is return to you what you loaned him in dollars, because this is the loan that you gave him. However, if you both agreed that he would pay you in Egyptian pounds, then there is nothing wrong with that. Ibn ‘Umar (may Allah be pleased with him) said: We used to sell camels for dirhams and take dinars instead, we would sell for dinars and take dirhams instead. The Prophet (blessings and peace of Allah be upon him) said: “There is nothing wrong with you taking one instead of the other, provided that it is based on that day’s exchange rate, and you do not part with anything outstanding between you.” This is like selling one currency for a different currency, and it is very similar to selling gold for silver. So if you and he agreed that he will give you Egyptian pounds instead of dollars, provided that you do not take more Egyptian pounds than

whatever was the value at the time of payment when you decided to change the currency, then there is nothing wrong with that. For example, if 2000 dollars is now equal to 2800 pounds, it is not permissible for you to take 3000 pounds, but it is permissible for you to take 2800 pounds, and it is permissible for you to take two thousand dollars from him and no more. In other words, you can take according to the day’s price or less, but not more. But if you take less, then this means that you have taken some of your due and have let him off with regard to the rest, and there is nothing wrong with that. End quote.

Fataawa Islamiyyah (2/414, 415)

If one of the two parties does not adhere to this ruling, then he will be taking the difference between the two currencies unlawfully, and this is one of the things that are prohibited according to the verse in which Allah, may He be exalted, says (interpretation of the meaning):

“O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful”

[an-Nisaa’ 4:29].

And Allah knows best.