

Currency Value Changes: Historical Dynamics and Islamic Legal Perspectives in *Maqāṣid Ash-Shari'ah*

Ishlahu Darussalam

Universitas Islam Negeri Sunan
Kalijaga, Yogyakarta
binasmachan@gmail.com

Izbik Muhammad

Universitas Islam Negeri Sunan
Kalijaga, Yogyakarta
izzunsubadi@gmail.com

Abstract: This article discusses the fluctuations in currency value throughout the history of Islamic economics, from a precious metal-based monetary system (gold and silver) to the adoption of paper money. It also examines scholars' perspectives on the legal status of paper money and the challenges faced by contemporary monetary systems, including inflation and usury (*riba*). Employing a qualitative approach, this study analyzes historical literature and Islamic jurisprudence related to changes in the monetary system and the issues posed by fiat currencies. The data were primarily gathered through a review of various scholarly opinions on paper money, which are expected to provide a foundation for developing a more stable monetary system in line with *Shariah* principles. The study finds that the transition from a metal-based monetary system (gold and silver) to paper money introduces challenges related to inflation and *riba*, which contradict the principles of *Maqāṣid Ash-Shari'ah*. Therefore, the study emphasizes the need for a more stable monetary policy aligned with *Shariah* principles, suggesting technology-based solutions such as asset-backed currencies or cryptocurrency as more stable alternatives free from exploitative debt practices classified as *riba*.

Keywords: Currency Value Changes; History of Muslim's Economic System; *Maqāṣid Ash-Shari'ah*; Islamic Law.

Abstrak: Artikel ini membahas fluktuasi nilai mata uang sepanjang sejarah ekonomi Islam, mulai dari sistem moneter berbasis logam mulia (emas dan perak) hingga adopsi uang kertas. Artikel ini juga mengkaji pandangan para ulama mengenai status hukum uang kertas serta tantangan yang dihadapi oleh sistem moneter kontemporer, termasuk inflasi dan *riba* (bunga). Menggunakan pendekatan kualitatif, studi ini menganalisis literatur sejarah dan fiqih Islam terkait perubahan sistem moneter dan masalah yang ditimbulkan oleh mata uang fiat. Data utama dikumpulkan melalui tinjauan berbagai pendapat ulama tentang uang kertas, yang diharapkan dapat menjadi landasan untuk mengembangkan sistem moneter yang lebih stabil sesuai dengan prinsip-prinsip *Syariah*. Studi ini menemukan bahwa transisi dari sistem moneter berbasis logam (emas dan perak) ke uang kertas menimbulkan tantangan terkait inflasi dan *riba*, yang bertentangan dengan prinsip-

prinsip *Maqāṣid Ash-Shari'ah*. Oleh karena itu, studi ini menekankan perlunya kebijakan moneter yang lebih stabil sesuai dengan prinsip-prinsip *Syariah*, dengan mengusulkan solusi berbasis teknologi seperti mata uang yang didukung aset atau cryptocurrency sebagai alternatif yang lebih stabil dan bebas dari praktik utang eksploitatif yang diklasifikasikan sebagai riba.

Kata Kunci: Perubahan Nilai Mata Uang; Sejarah Perekonomian Islam; *Maqāṣid Asy-Syari'ah*; Hukum Islam.

Introduction

The fluctuation of currency values has been a significant issue in the evolution of Islamic economics throughout history. Since the era of Prophet Muhammad, the financial policies of the Muslim community have been grounded in the use of precious metals such as gold (dinar) and silver (dirham), which are recognized for their stable intrinsic value.¹ These two forms of currency not only served as a medium of exchange but also acted as a fair metric for valuing goods. In this context, the stability of currency is paramount in Islamic economics, as it is inherently linked to the principle of justice in transactions and the prevention of speculative practices that could adversely affect the parties involved. Protecting wealth (*hifz al-māl*) through stable financial policies is one of the primary objectives of *Shari'ah* (*Maqāṣid Ash-Shari'ah*), which seeks to establish a balanced social system that does not perpetuate inequalities within society.² Justice in financial transactions is a fundamental goal and, within the domain of Islamic Economic Law (*Mu'amalat*), is central to the application of *Maqāṣid Ash-Shari'ah*, which. However, challenges arise when the monetary system transitions from a stable metal-based system to one based on fiat currency, which is vulnerable to inflation.

As global trade expanded and became more complex over time, there arose a need for a more flexible and efficient payment system. Traders faced challenges in transporting large quantities of gold and silver between countries, which led to the introduction of paper money.³ Initially, paper money functioned as a promissory note that could be exchanged for precious metals, but over time, it evolved into a legal tender without physical backing, relying solely on the trust placed in the issuing authority.⁴ This transformation resulted in significant

¹ Seyed Kazem Sadr, *The Economic System of the Early Islamic Period* (New York: Palgrave Macmillan US, 2016), <https://doi.org/10.1057/978-1-137-50733-4>; Ira M. Lapidus, *A History of Islamic Societies*, Third edition (New York: Cambridge University Press, 2014).

² Landy T. Abdurrahman, "Pendekatan Maqāṣid Al-Syari'ah Kontemporer Dalam Perilaku Ekonomi," *An-Nawa : Jurnal Studi Islam* 1, no. 1 (December 16, 2019): 17–41, <https://doi.org/10.37758/annawa.v1i2.139>.

³ John Weeks, "The Theory and Empirical Credibility of Commodity Money¹," *Science & Society* 76, no. 1 (January 2012): 66–94, <https://doi.org/10.1521/siso.2012.76.1.66>.

⁴ Abdul Rahman A Shukor and Joni Tamkin Borhan, "Hukum Wang Kertas Masa Kini: Satu Analisa Menurut Perspektif Syariah: Rule of Current Paper Money: an Analysis from Shariah Perspective," *Journal of Fatwa Management and Research* 12, no. 1 (July 9, 2018): 1–21, <https://doi.org/10.33102/jfatwa.vol12no1.3>.

changes to the global monetary system, including in the Islamic world. However, the subsequent developments brought about economic instability, particularly due to excessive money printing, which led to inflation—an issue further aggravated by the practice of interest-bearing debt, which distorts the value of money without contributing to productive economic activities.⁵

The transition from metal-based money to paper currency, while offering convenience in transactions, also presents significant challenges from an Islamic law perspective. One of the most debated issues is the legal status of paper money, which lacks the intrinsic value of gold and silver. Some scholars argue that paper money, which relies on the recognition and trust of the issuing state, is vulnerable to inflation and value manipulation, potentially leading to economic instability.⁶ The transition from metal-based money to paper currency, while offering convenience in transactions, also presents significant challenges from an Islamic law perspective. One of the most debated issues is the legal status of paper money, which lacks the intrinsic value of gold and silver. Some scholars argue that paper money, which relies on the recognition and trust of the issuing state, is vulnerable to inflation and value manipulation, potentially leading to economic instability.⁷ However, the reliance on national monetary policies and the uncontrolled national debt burden could undermine the principles of justice and the welfare of the community.

Another challenge is inflation, which often reduces the value of currency and leads to a decrease in people's purchasing power. In systems based on gold and silver, inflation can be more controlled due to the limited amount of precious metals, which are not easily manipulated by authorities. However, in systems based on paper currency, governments have the authority to print money without specific limitations, which can result in an increase in the money supply not aligned with proportional economic growth. This phenomenon leads to rising prices for goods and services, causing economic instability, which contradicts the principles of Shariah that prioritize justice and stability.⁸ This clearly contradicts the principles of *Maqāṣid Ash-Shari'ah*, which demands fair monetary policies to protect life (*an-nafs*) and wealth (*al-māl*) of the people.

Additionally, the issue of a financial system that involves *riba* (usury) remains a significant debate in Islamic monetary systems. *Riba* in Islamic economics is more than just bank interest or profit from loans; it is a form of exploitation that harms the weaker party.⁹ In fiat-based monetary systems, the practice of *riba* exacerbates economic inequalities

⁵ Ahmad Muzhaffar, "RIBA DALAM AL-QURAN: SEBUAH KAJIAN ANTROPOLOGIS," *Al-Maṣāhib* 3, no. 1 (2015): 105–21, <https://doi.org/10.14421/al-mazaahib.v3i1.1384>; Ahmad Hujaj Nurrohim, Landy Trisna Abdurrahman, and Khairul Imam, "Usury in Online Loans and Pay Later: From Historical Perspective to Its Contextualization on Modern Practice," *Az-Zarqa: Jurnal Hukum Bisnis Islam* 15, no. 2 (December 28, 2023): 283–306, <https://doi.org/10.14421/azzarqa.v15i2.3303>.

⁶ Dr. Muḥammad 'Uṣmān Syubair, *Al-Mu'āmalāt al-Māliyah al-Mu'aṣirah Fī al-Fiqh al-Islāmī* (Oman: Dār al-Nafāis, 2001), 15.

⁷ Abū 'Abdullāh Muḥammad bin Aḥmad bin Muḥammad Ulaisy, *Manḥu Al-Jalīl 'alā Mukhtaṣar al-Khalīl* (Beirut: Dār al-Fikr, 1984), 1:164.

⁸ Rahmat Azahar Siregar and M. Shabri Abdul Majid, "Macro : Inflation And Economic Stability In Islam," *International Journal of Science, Technology & Management* 3, no. 5 (September 17, 2022): 1426–30, <https://doi.org/10.46729/ijstm.v3i5.592>.

⁹ Nurrohim, Abdurrahman, and Imam, "Usury in Online Loans and Pay Later."

because the profits gained are not accompanied by any real contribution to the economy. This practice creates injustice, which contradicts the principles of *Maqāṣid Ash-Sharī'ah*, which emphasize social justice and the welfare of the community.

The debate regarding paper money in Islamic economics is not merely theoretical but also has tangible impacts on the economic policies of countries with Muslim populations. These countries face the dilemma of whether to adhere to the global monetary system based on fiat currency, which is dependent on public trust, or to return to a system based on precious metals like gold and silver.¹⁰ Although efforts have been made to reintroduce gold dinars and silver dirhams as alternative currencies in certain regions, their implementation still faces significant challenges related to regulation, liquidity, and global acceptance.¹¹

This study aims to explore the history of changes in the value of money in Islamic economics, as well as how these developments have influenced the application of Islamic law in economic transactions. The article also revisits various scholars' views on paper money, which are expected to provide a foundation for the creation of a more stable monetary system that aligns with the principles of Shariah. In this context, it is important to assess whether paper money, with all its challenges, can be accepted within the framework of Islamic economics, which emphasizes justice, stability, and the protection of wealth (*al-māl*) as well as the welfare of the community (*maslahah*). Therefore, the analysis in this article will also consider the principles of *Maqāṣid Ash-Sharī'ah* as a basis for evaluating whether the use of paper money aligns with the objectives of Islamic economics, which prioritize social welfare and justice for all members of society. The use of paper money should not only be viewed from the perspective of whether it has intrinsic value, but also from the extent to which it can support a fair monetary system that does not exploit any party and maintains economic balance, in accordance with the principles of *Maqāṣid Ash-Sharī'ah*.

Understanding the monetary system within the framework of Islamic economic law (*Mu'āmalāt*) is greatly influenced by the fundamental principles contained within *Maqāṣid Ash-Sharī'ah* (the objectives of Shariah). Some scholars argue that fiat-based monetary systems, which are not backed by physical assets such as gold or silver, are contrary to Shariah principles, as they can lead to economic issues such as inflation and depreciation of wealth, which undermines the protection of wealth (*ḥifẓ al-māl*) and social justice (*al-'adl*) within society.¹²

One of the main criticisms of fiat money is its instability, which is often caused by uncontrolled money printing policies. Several studies indicate that fiat-based monetary systems, which rely on public trust in the issuing authority, are vulnerable to inflation and

¹⁰ Kevin Dowd and Richard H. Timberlake, eds., *Money and the Nation State: The Financial Revolution, Government and the World Monetary System*, Independent Studies in Political Economy (New Brunswick, NJ: Transaction Publ, 1998).

¹¹ Azhar Mohamad and Imtiaz Mohammad Sifat, "Gold Vis-à-Vis Money in Islam: The Case against Dinarist Movement," *International Journal of Law and Management* 59, no. 6 (November 13, 2017): 977–92, <https://doi.org/10.1108/IJLMA-06-2016-0061>.

¹² Ahamed Kameel, Mydin Meera, and Moussa Larbani, "Seigniorage of Fiat Money and the Maqasid al-Shari'ah: The Compatibility of the Gold Dinar with the Maqasid," *Humanomics* 22, no. 2 (April 1, 2006): 84–97, <https://doi.org/10.1108/08288660610669383>.

can cause injustice in wealth distribution.¹³ Therefore, many scholars have proposed that the Islamic monetary system return to the use of commodity money, such as gold and silver, which have stable intrinsic value and are more in line with the objectives of *Maqāṣid Ash-Shari'ah*.¹⁴ On the other hand, some contemporary Islamic thinkers argue that although fiat money does not meet the criteria of intrinsic value, its use could be accepted if it meets certain conditions, such as being widely accepted by the public and maintaining stable purchasing power. This view suggests flexibility in the application of Shariah principles in the context of modern economics.¹⁵

One of the primary challenges associated with fiat currency lies in its volatility and its incompatibility with the principle of justice as upheld in *Maqāṣid Ash-Shari'ah*. Most fiat-based monetary systems struggle to maintain currency stability, which is a fundamental requirement in Islamic economics for preserving public purchasing power and ensuring social welfare. Moreover, fiat money is frequently associated with exploitative interest-bearing debt practices—often classified as *riba*—which contradict the ethical imperatives of *Shari'ah* that prohibit excessive profit gained without genuine economic activity.¹⁶ The debate over fiat currency in the Islamic world has grown more complex with the advent of emerging financial technologies such as cryptocurrency, which some scholars and practitioners argue may offer more *Shari'ah*-compliant alternatives. In this context, certain scholars have begun exploring asset-backed currencies, such as sukuk (Islamic bonds), as potential replacements for fiat money in promoting a monetary framework more consistent with *Shari'ah* objectives.¹⁷

In addition, a number of Muslim scholars have advocated for monetary reforms that better align with Islamic legal principles. Among the proposals is the development of asset-based currencies, such as sukuk, to stabilize currency value and avoid the speculative volatility of fiat systems. The revival of gold dinar and silver dirham as alternatives to paper money has also resurfaced in scholarly and policy discussions. However, significant challenges remain in terms of regulation, liquidity, and global acceptance.¹⁸ Previous research acknowledges the theoretical appeal of returning to commodity-based monetary systems, yet global implementation and market integration continue to pose substantial obstacles. Therefore, it is crucial to assess whether fiat currency, despite its shortcomings, can be realigned within an Islamic economic system that is rooted in principles of social justice and communal welfare. There is an urgent need to establish a monetary framework that ensures

¹³ Hassan Ghassan, "Re-Examining the Equation of Exchange According to Shariah Rationale Money" *Turkish Economic Review*: Vol. 5 (January 1, 2018): 402–15.

¹⁴ Mohamad and Sifat, "Gold Vis-à-Vis Money in Islam."

¹⁵ Imtiaz Mohammad Sifat and Azhar Mohamad, "Revisiting Fiat Regime's Attainability of *Shari'ah* Objectives and Possible Futuristic Alternatives," *Journal of Muslim Minority Affairs* 38, no. 1 (January 2, 2018): 1–23, <https://doi.org/10.1080/13602004.2018.1435057>.

¹⁶ Windu Anggara et al., "Economic Stability in Islamic View: Approach to Controlling Inflation," *International Journal of Science, Technology & Management* 4, no. 5 (September 26, 2023): 1366–72, <https://doi.org/10.46729/ijstm.v4i5.914>.

¹⁷ Edib Smolo and Mohamed Mahees Raheem, eds., *The Future of Islamic Finance: From Shari'ah Law to Fintech* (Emerald Publishing Limited, 2024), <https://doi.org/10.1108/9781835499061>.

¹⁸ Kameel, Meera, and Larbani, "Seigniorage of Fiat Money and the Maqasid al-Shari'ah"; Abdul-Jabbar AL-Sabhani, "Money as It Should Be, in an Islamic System," *Journal of King Abdulaziz University-Islamic Economics* 10, no. 1 (1998): 3–38, <https://doi.org/10.4197/islec.10-1.7>.

economic stability without compromising the ethical values enshrined in *Maqāṣid Ash-Shari'ah*.¹⁹

While earlier studies have examined the principal issues surrounding fiat currency from a *Shari'ah* perspective, there remains a gap in the literature regarding the compatibility of fiat money with the higher objectives of Islamic law in the context of contemporary economic systems. This article aims to fill that gap by delving into the ongoing discourse on fiat currency in Islamic economics and examining how equitable monetary policy can be formulated in line with more flexible interpretations of *Shari'ah*, particularly as proposed by contemporary scholars. The study also investigates the practical challenges faced by Muslim-majority countries in implementing commodity-based monetary systems and explores potential solutions such as the use of sukuk or even asset-backed cryptocurrencies as viable alternatives aligned with *Shari'ah* objectives. Ultimately, this article seeks to contribute meaningfully to the ongoing discourse on Islamic monetary reform and how it may foster greater justice and balance in the global economic landscape.

This research adopts a qualitative approach using historical analysis to examine various Islamic legal perspectives on the monetary system, particularly regarding paper money and its implications for economic stability within a *Shari'ah* framework. It traces the evolution of the Islamic monetary system from its foundations in gold and silver coinage to the modern adoption of fiat currency, while critically evaluating how *Maqāṣid Ash-Shari'ah*—specifically the protection of wealth (*ḥifẓ al-māl*), justice (*al-'adl*), and public welfare (*maṣlaḥah*)—can serve as a normative foundation for establishing a more just and sustainable monetary policy. The study draws upon classical and contemporary Islamic jurisprudential literature, legal documents, and relevant economic sources addressing modern issues such as inflation, dependence on state monetary policies, and the socioeconomic consequences of *riba*. The research further considers the potential of asset-based solutions—such as sukuk or cryptocurrency—as alternatives that could foster a more equitable and *Shari'ah*-compliant monetary system.

Results and Discussion

Fluctuation in the History of the Islamic Economy

The evolution of the Islamic monetary system illustrates how currency values have undergone substantial transformations in response to the shifting dynamics of the economy and political policies over time. Initially, Muslims relied on gold (dinar) and silver (dirham) as the primary medium of exchange in economic transactions. These precious metals, recognized for their intrinsic value, were universally accepted and regarded as stable forms of currency, impervious to the fluctuations often seen in fiat money. This system remained intact for centuries, establishing itself as the benchmark for trade both within the Islamic world and in external markets.²⁰

¹⁹ Norashikin Adam, Noor Zahirah Mohd Sidek, and Arshian Sharif, “The Impact of Global Economic Policy Uncertainty and Volatility on Stock Markets: Evidence from Islamic Countries,” *Asian Economic and Financial Review* 12, no. 1 (January 17, 2022): 15–28, <https://doi.org/10.18488/5002.v12i1.4400>.

²⁰ Sadr, *The Economic System of the Early Islamic Period*.

During the time of Muhammad's prophetic days, there was no independent currency system within the Muslim society. Instead, they adopted the monetary systems of the Byzantine and Persian empires, utilizing Byzantine gold dinars and Persian silver dirhams. This system leveraged the inherent value of precious metals in the currency. The exchange rate of these coins remained highly stable, given the consistent content of gold and silver, universally recognized commodities.²¹ Prophet Muhammad did not establish a new currency but rather provided guidelines for economic transactions to ensure equity. The stability of these currencies enabled the development of a trading system grounded in justice and transparency. During this period, inflationary policies or devaluation of the currency were non-existent, as the value of the money was directly linked to the number of precious metals it contained.²²

The Islamic monetary system saw notable changes during the Umayyad Caliphate. Caliph Abdul Malik bin Marwan (685–705 CE) initiated the minting of dinars and dirhams with designs that were more representative of Islamic identity, replacing the previous Byzantine and Persian coins.²³ In 74 AH (695 CE), Abdul Malik ordered the minting of gold dinars with Arabic inscriptions and Islamic symbols, marking a significant departure from the Byzantine coins previously in circulation. This shift was intended to reinforce the sovereignty of the Islamic economy and reduce reliance on foreign monetary systems.²⁴ As a result, the dinar and dirham came to symbolize the political and economic identity of the expanding Islamic state. With the growth of international trade, the use of these coins spread further, becoming a reference point for cross-border economic transactions.

Under the reign of Caliph al-Mahdi (775–785 CE), the practice of debasement emerged, where the precious metal content in coins was reduced to cover the state's budgetary shortfalls. Debasement refers to the reduction of the intrinsic value of currency, achieved by diluting the metal content (such as gold or silver) to produce more coins without increasing the actual supply of precious metals. For instance, coins previously minted with 100% silver could be alloyed with cheaper metals such as copper to expand the number of coins in circulation.²⁵ The primary objective of this practice was to increase the money supply without a corresponding increase in precious metal reserves. While this policy provided short-term fiscal relief for the government, it had adverse long-term effects, namely inflation and a devaluation of the currency. In effect, debasement weakened the exchange rate of the currency, as the number of coins increased, but their intrinsic value diminished.²⁶

²¹ Mahmood Ibrahim, "Social and Economic Conditions In Pre-Islamic Mecca," *International Journal of Middle East Studies* 14, no. 3 (August 1982): 343–58, <https://doi.org/10.1017/S0020743800051977>.

²² A. Udovitch, "Islamic Law and the Social Context of Exchange in the Medieval Middle East," *History and Anthropology* 1, no. 2 (February 1985): 445–65, <https://doi.org/10.1080/02757206.1985.9960751>.

²³ Ahmad bin Yahya Al-Wansyarisiy, *Al-Ma'yar al-Mu'arab Wa al-Jami' al-Mu'arab* (Beirut: Dar al-Garbi al-Islami, 1981), 6:164.

²⁴ Philip K. Hitti, *History of The Arabs from the Earliest Times to The Present*, 10. ed., 15th reprint, MacMillan International College Editions (Houndmills London: MacMillan, 1993).

²⁵ Siregar and Abdul Majid, "Macro."

²⁶ Sadr, *The Economic System of the Early Islamic Period*; John H. Munro, "The Medieval Origins of the Financial Revolution: Usury, Rentes, and Negotiability," *The International History Review* 25, no. 3 (September 2003): 505–62, <https://doi.org/10.1080/07075332.2003.9641005>.

However, this practice led to inflation, as the increased circulation of coins did not correspond with an increase in their intrinsic value. Consequently, the public began to lose trust in the currency. This phenomenon led to economic instability, which affected trade, causing a shift from a barter system to a currency-based system, with the lower classes bearing the brunt of rising commodity prices due to inflation.²⁷ The debasement practice caused economic instability across various Islamic empires, including the Abbasid and Ottoman Caliphates, due to the diminishing public confidence in the currency. The inflation caused by debasement would result in higher commodity prices, adversely impacting those who held savings in currency. Therefore, while debasement may have temporarily helped to cover the state's budget deficit, it proved to be a major contributor to long-term economic instability.

In the subsequent periods, particularly during the Mamluk and Ottoman eras, fluctuations in currency value became more pronounced. During the Ottoman Caliphate, the government implemented various monetary policies to address fiscal deficits, including the issuance of copper-based currency (*fulūs*) as a temporary substitute for dinars and dirhams. However, the issuance of currency without strong intrinsic value led to public distrust in the currency. As a result, inflation repeatedly plagued the Ottoman economy.²⁸ By the late 19th century, the Ottoman gold lira became the primary currency in the region, following the Caliphate's shift in 1888 from a bimetallic monetary system to a gold-based standard. Turkish silver and copper coins were used for smaller transactions, while larger transactions were conducted using the Ottoman gold lira and European gold currencies, such as those from England and France. However, during World War I (1914–1918), the Turkish government mandated the use of paper money, which had started being issued in 1862. Despite initially being exchangeable for gold, paper money was never widely accepted, particularly in rural and remote areas, thus limiting its usage.²⁹

Public confidence in paper money continued to decline during the war, due to its continuous depreciation caused by the large-scale printing of money to finance war expenditures. As the government was forced to print more money to meet its financial needs, this led to inflation that eroded the public's purchasing power. The instability of currency became a recurring issue, which had been evident since the 10th century AH during the Ottoman Caliphate.³⁰ The economic instability caused by fluctuations in currency value, or the depreciation of the currency itself, disrupted trade transactions, which in turn exacerbated

²⁷ Dariusz Eligiusz Staszczak, "Global Instability of Currencies: Reasons and Perspectives According to the State-Corporation Hegemonic Stability Theory," *Revista de Economia Política* 35, no. 1 (March 2015): 175–98, <https://doi.org/10.1590/0101-31572015v35n01a10>.

²⁸ Andrew S. Ehrenkreutz and Jere L. Bacharach, *Monetary Change and Economic History in the Medieval Muslim World*, Collected Studies Series ; CS371 ([Aldershot, Hants] ; Brookfield, Vt., USA: Ashgate Pub, 1992).

²⁹ James E. Seaver, "A Monetary History of the Ottoman Empire: Pamuk, Sevkett," Cambridge: Cambridge University Press, 276 Pp., Publication Date: December 1999," *History: Reviews of New Books* 28, no. 4 (January 2000): 180–180, <https://doi.org/10.1080/03612759.2000.10525602>.

³⁰ Seaver.

the economic condition of society, particularly for those dependent on international trade that used currency as the standard of transaction.³¹

The issuance of paper money became more widespread during World War I (1914–1918), as major countries began to issue paper currency in response to the financial demands of war. Initially, these currencies could be exchanged for gold; however, over time, they lost their intrinsic value and came to rely more on the public's trust in the governments that issued them. During this period, the Ottoman Caliphate began to transition from using precious metal-based currencies, such as gold dinars and silver dirhams, to paper money, marking a significant shift in the monetary system of the Islamic world. A major shift in the global monetary system occurred in the 20th century, particularly in 1971, when U.S. President Richard Nixon abandoned the gold standard in the international monetary system. This decision ended the Bretton Woods system, which had tied the value of the U.S. dollar to gold reserves, and caused the world's monetary systems to fully transition to fiat money. In this new system, money was no longer backed by gold or other precious metals, but by the trust that the public had in central banks and governments. As a result, currencies became more susceptible to economic fluctuations and market speculation, which could lead to inflation and economic instability.³²

For Muslim-majority countries, which had previously relied on precious metal-based systems for international transactions, the shift to fiat money posed a significant challenge. Many Muslim-majority countries, accustomed to using gold dinars and silver dirhams, had to adapt to a monetary system that was entirely dependent on monetary policy and trust in state authorities. Nevertheless, some regions within the Muslim world have continued efforts to preserve the use of gold dinars and silver dirhams for certain transactions, both as cultural symbols and as alternatives to mitigate the negative impacts of inflation caused by fiat money.³³

The history of changes in the value of money within the Islamic economy demonstrates that although the Islamic monetary system was initially highly stable, relying on precious metal-backed dinars and dirhams, various economic and political factors in later periods led to significant changes. From the use of precious metal-based currencies in the early Islamic period to the adoption of fiat money in the modern era, the Islamic monetary system has undergone numerous challenges and adaptations.³⁴ Given the historical changes in currency value, it is essential to further understand how the principles of Shariah can be applied to create a more just and stable monetary system amidst the dynamics of the global economy.

³¹ Bedjo Santoso, Khaliq Ahmad, and Buerhan Saiti, "Money in Islamic Banking System," in *Islamic Economies*, ed. Nafis Alam and Syed Aun R. Rizvi (Cham: Springer International Publishing, 2017), 99–125, https://doi.org/10.1007/978-3-319-47937-8_7.

³² Yanliang Miao and Xuan Fei, "The International Monetary System: Evolution and Revolution," *China Economic Journal* 15, no. 3 (September 2, 2022): 235–52, <https://doi.org/10.1080/17538963.2022.2117193>.

³³ Jonathan George Ercanbrack, "Islamic Financial Law and the Law of the United Arab Emirates: Disjuncture and the Necessity for Reform," *Arab Law Quarterly* 33, no. 2 (April 3, 2019): 152–78, <https://doi.org/10.1163/15730255-12332011>.

³⁴ Theodore Karasik, Frederic Wehrey, and Steven Strom, "Islamic Finance in a Global Context: Opportunities and Challenges," *Chicago Journal of International Law* 7, no. 2 (2007): 379–96.

Muslim Scholars' Debates on Fiat Money on the Perspective of Islamic Economic Law

Since the inception of Islamic financial (monetary) policy, gold (dinar) and silver (dirham) have been used as currencies with stable intrinsic value, ensuring that there were no significant fluctuations in value over time, although changes eventually occurred due to various factors. In classical times, Islamic scholars viewed these precious metals as a medium of exchange ordained by Allah to facilitate transactions between individuals based on justice, free from value manipulation. Gold and silver, in Islamic economic thought, function not only as a medium of exchange but also as a measure of the value of traded goods. This is based on the principle of justice, which is the core foundation of Islamic economics, requiring that exchange rates be clear and stable.³⁵

As explained by Imam Al-Ghazali in his work *Ihya Ulumuddin*, coins such as the dinar and dirham have no intrinsic value beyond their function as a medium of exchange that facilitates the trade of goods and services. According to Al-Ghazali, in terms of faith, the existence of minted coins created by Allah is a divine blessing that addresses the challenges of direct exchange, which is often difficult to measure fairly. Al-Ghazali stated: "*Kbuliqat al-darāhimu wa al-danānīru li takūna miyāran lil-muqawwamāti wa wasaṭan bayna al-ammālī, ḥattā tuqaddara bihā al-ammāl, wa laysa lahā maqṣūdun fī anfusihā.*"³⁶ For example, comparing the value of goods like camels and saffron, which cannot be directly equated, requires a tool that can bridge these differences. In this context, dinars and dirhams serve as clear standards to determine value and ensure that transactions are fair.³⁷

However, despite the long history of using precious metals as money in the Islamic world, the development of the global economy and technological advancements have introduced new challenges. The increasingly complex international trade made it impractical to transport large quantities of precious metals, particularly due to transportation limitations and the weight of gold and silver. Therefore, in the 17th century, merchants began to introduce paper money as a more flexible and easily transferable means of payment. Initially, paper money was introduced as a promissory note that could be exchanged for precious metals, but over time, paper money evolved into a legal tender despite lacking intrinsic value.³⁸

In 1914, as a consequence of World War I, many countries adopted policies to withdraw gold from circulation and replace it with paper money issued by the state as legal tender. Countries began to set fixed prices for paper money, which, nominally, no longer depended on gold or silver reserves but on the trust in the issuing government. This marked a revolution in currency, transitioning from a precious metal-based monetary system to a fiat

³⁵ Adam Abdullah Adam Abdullah, "Classical Islamic Perspectives on Monetary Theory," *Journal of King Abdulaziz University Islamic Economics* 35, no. 1 (January 1, 2022): 3–22, <https://doi.org/10.4197/Islec.35-1.1>.

³⁶ Abū Ḥāmid Muḥammad bin Muḥammad Al-Gazālī, *Ihyā'Ulūm al-Dīn* (Maroko: Dār al-Rasyād al-Ḥadīṣah-Dār al-Baiḍā', 1993), 12:2219.

³⁷ Prof. Dr. Yūsuf Maḥmūd Qāsim, *Majallab Majma' al-Fiqh al-Islāmī*, vol. 3, 5 5 (Jeddah, 1988), 1701.

³⁸ Muḥammad Zakī Syāfi'ī, *Muqaddimah Fi Al-Nuqūd Wa al-Bunnūk* (Beirut-Lubnan: Dār al-Nahḍah al-'Arabiyah, 1970), 49.

money system, where paper money derives its value solely from the support and recognition of the issuing state.³⁹

However, the paper-based monetary system has generated extensive debate within the discourse of Islamic economic law. Some contemporary scholars accept paper money as a legitimate medium of exchange, provided that it is widely accepted by society and maintains a stable purchasing power. On the other hand, other scholars regard paper money as a form of promissory note, inherently vulnerable to inflation and speculative manipulation, and thus incompatible with the *Shari'ah* principles of economic justice and transactional stability. Within this context, a spectrum of legal opinions has emerged among scholars, typically coalescing around four principal perspectives:⁴⁰

1. Paper Money as a Promissory Note

The first view posits that paper money is essentially a promissory note issued by the state or the responsible authority. This opinion is supported by scholars such as Shaykh 'Abd al-Qādir ibn Aḥmad ibn Badrān and Shaykh Aḥmad al-Ḥusaynī. According to them, paper money lacks intrinsic value like gold and silver and is accepted only based on the guarantee of its issuer. In this framework, paper money is treated as debt that must be redeemable in real assets, such as gold or silver, upon request. Therefore, while legally valid, paper money cannot be equated with metallic currency possessing inherent value.

2. Paper Money as a Commodity

The second view argues that paper money is a form of tradeable commodity, governed by the general laws of commercial exchange. This opinion is upheld by a number of jurists, including Shaykh Muḥammad Alish, a prominent Mālikī muftī of his time. They contend that since paper money has no intrinsic value, it cannot be considered a permanent form of currency. Accordingly, financial practices such as *ribā*, *salam*, and *zakat* obligations do not apply to paper money unless it is used in transactions involving real goods or trade. In other words, paper money is only deemed valid when employed in lawful exchanges that avoid speculation and exploitative practices.

3. Paper Money Equivalent to Gold and Silver Coins

The third perspective, advocated by scholars such as Shaykh Muṣṭafā az-Zarqā, holds that paper money carries the same legal status as coins made from gold and silver. He stated:

“Yatabayyanu mim mā aslafnā anna hubūṭ al-‘umlaḥ alladhī yajibu an yu’khaḍha bil-i’tibār wa yunsafu bihī al-farq an-nāshī’, wa yūẓa’u ‘alā at-ṭarafayn: al-multazīm wa al-multazām lahu, ‘alā kullin minhumā niṣṣuh, innamā huwa fī ḥalati al-hubūṭ al-mufāji’ alladhī yaḥṣulu ‘ādatan bi-qarārīn ḥukūmiyyin yuttakhaḍhu sirran thumma yu’lanu fuḷā’atan wa yufāji’u bihī an-nās, aw bi-ḥudūthi ṭarī’in ākhar mufāji’.... fa-innahu ḥīna’idhīn yu’tabaru faḥīshan wa yūjibu tawzī’ al-

³⁹ Miao and Fei, “The International Monetary System”; Dowd and Timberlake, *Money and the Nation State*.

⁴⁰ Alā’ al-Dīn Maḥmūd Za’tarī, *Al-Nuqūd Wa Zāifihā al-Asasiyah Wa Aḥkāmihā al-Syar’iyyah* (Damascus: Dār Qatibah, 1996), 346.

*farq ‘alā at-ṭarafayn akhdhan min al-adillah ash-shar‘iyyah wa al-ārā’ al-fiqhiyyah allatī tuḥaddidu ḥadd al-kaṣrah biṣ-ṣuluṣ.’*⁴¹

“It becomes evident from the preceding discussion that currency depreciation, which must be taken into consideration when evaluating transactional fairness, and whose resulting difference must be equitably distributed between the obligor and the obligee—half borne by each party—is particularly relevant in cases of sudden and unexpected depreciation. Such depreciation usually arises from a government decision taken in secrecy and then abruptly announced to the public, or due to another unforeseen emergency.... These warrants apportioning the difference between both parties, in accordance with established Islamic legal principles and juristic opinions, which define significant loss as one that reaches or exceeds one-third.”

Despite lacking intrinsic value, paper currency is deemed legally acceptable as a medium of exchange based on widespread societal acceptance and state recognition. In this framework, paper money functions similarly to coins made of gold or silver, even if its nominal value does not reflect a real material equivalent. Thus, it may be used in commercial transactions, debt repayments, and zakat obligations, provided that it remains stable in its purchasing power.

4. Paper Money as Independent Legal Tender

The last view, which is more widely embraced by contemporary scholars, asserts that paper money constitutes an independent legal tender equivalent to gold and silver in its function as a medium of exchange. This opinion is supported by several authoritative bodies, including the Council of Senior Scholars in the Kingdom of Saudi Arabia, which affirms the legitimacy of circulating paper currencies as legally binding money on par with precious metal coins. In this view, paper money is not merely a proxy for precious metals but a fully autonomous form of money suited to the needs of modern society. It is subject to the same rulings as gold and silver with regard to zakat and the prohibition of *ribā*—both *ribā al-faḍl* and *ribā al-nasi’ah*. Consequently, paper money is recognized as a valid currency in Islamic monetary systems, insofar as its use conforms to the ethical and legal principles of *Shari’ah* that prioritize justice and social welfare.

Paper money is regarded by some scholars as a form of independent currency, equivalent to metallic money made from gold, silver, and other forms of exchange value. This perspective is based on the view that, although paper money lacks the intrinsic value of precious metals, it can serve as a legitimate medium of exchange as long as it is accepted by the public and recognized by the issuing authority. Paper money also has diverse characteristics depending on the issuing institution in each country. For example, the paper money issued by Saudi Arabia carries its own distinct identity, as does the paper money issued by other countries such as the United States, each having its own features and exchange rate

⁴¹ asy-Syaykh Muṣṭafā az-Zarqā, “Inkhifāḍ Qīmat Al-Umlah Wa Atharuhā ‘alā Ad-Duyūn as-Sābiqah,” *Majallat Al-Iqtisād al-Islāmī* 181, no. 2 (1995): 30–45.

based on the trust the public places in the issuing government. Each type of paper currency has an independent identity that distinguishes it from one another.⁴²

Transactions involving paper money must be conducted with caution, considering the identity and substance inherent in each currency. This view aligns with Islamic law regarding transactions involving paper money, where clear rules exist regarding the exchange of currency types with differing identities. First, the sale or purchase of paper money in the same currency type but differing amounts, whether conducted in cash or non-cash forms, is prohibited.⁴³ For instance, selling ten Saudi riyals for eleven Saudi riyals, whether cash or non-cash, is considered unlawful as it may harm one of the parties involved. Second, transactions involving paper money between different types of currencies, such as between Saudi riyals and other foreign currencies, are also prohibited if conducted non-cash without direct physical exchange. These provisions ensure fairness in transactions and prevent practices that could harm the parties involved.⁴⁴

However, there are exceptions that allow the sale or purchase of different types of currencies in cash, without any specific restrictions. For instance, transactions involving the sale or purchase of Syrian lira or Lebanese lira with Saudi riyals, whether in gold or silver, remain permissible even if the nominal values are higher or lower. Similarly, transactions involving the sale or purchase of US dollars for three Saudi riyals, whether more or less than the nominal value, are permitted as long as they are conducted in cash. In this context, it is important to note that the determining factor in the validity of currency transactions is the substance and type of the currency involved, not just the name or nominal value inscribed on the currency.⁴⁵ Thus, this type of transaction underscores the importance of understanding the identity and substance of the currency being exchanged, ensuring fairness and preventing exploitation that may harm the parties involved.

Based on the above views, paper money is liable for zakat if its nominal value reaches the lowest *nisab* threshold for gold or silver. This shows that, despite lacking intrinsic value, paper money still fulfills the basic functions of Islamic economics as a legitimate medium of exchange and is subject to zakat obligations.⁴⁶ Moreover, paper money can also be used as capital in *salam* transactions, which in Islamic economics is permissible provided it meets just conditions and does not involve *riba*. Therefore, the acceptance of paper money in Islamic economics not only considers fairness in transactions but also ensures the fulfillment of social obligations, such as zakat, which is an integral part of the Islamic economic system.⁴⁷

⁴² Asad Zaman, "On the Nature of Modern Money," *SSRN Electronic Journal*, 2014, <https://doi.org/10.2139/ssrn.2535697>; A Shukor and Borhan, "Hukum Wang Kertas Masa Kini."

⁴³ Qāsim, *Majallab Majma' al-Fiqh al-Islāmi*, 3:1701.

⁴⁴ Qāsim, 3:1701.

⁴⁵ Sahrani, Nur Amaliah Nasir, and Lman Tauhid, "Konsep Nilai Tukar Uang Perspektif Ekonomi Islam," *BALANCA: Jurnal Ekonomi Dan Bisnis Islam* 4, no. 2 (September 6, 2023): 1–7, <https://doi.org/10.35905/balanca.v4i2.4702>; Disfa Lidian Handayani, "Hukum Ekonomi Syariah: Tantangan Dan Peluang Dalam Pengembangan Inovasi Instrumen Keuangan Syariah," *Al-Manabij: Jurnal Kajian Hukum Islam* 9, no. 2 (January 1, 1970): 335–46, <https://doi.org/10.24090/mnh.v9i2.506>.

⁴⁶ Qāsim, *Majallab Majma' al-Fiqh al-Islāmi*, 3:1701.

⁴⁷ Fakhruddin Fakhruddin et al., "From Fiqh Al-Ibadat to Mu'āmalāt: Repositioning Zakat Management in Indonesia in the Perspective of Maqāṣid Al-Sharī'ah," *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam* 8, no. 1 (April 27, 2024): 495, <https://doi.org/10.22373/sjhk.v8i1.19637>.

Although paper money does not have intrinsic value like gold or silver, its acceptance is still dependent on the economic stability and monetary policy of the issuing country. This trust is often influenced by global political and economic conditions, such as financial crises, inflation, or war, which can devalue the currency and affect the purchasing power of the public. For example, World War I and the post-war economic crisis caused many countries to experience a decline in the purchasing power of their currencies. The public's trust in paper money was undermined as its value became highly dependent on the monetary policies implemented by the government. Therefore, in the Islamic monetary system, it is essential to ensure that monetary policies are always designed with social justice and the welfare of the people in mind.

Challenges in the Contemporary Economic System: Inflation and *Riba*

According to theoretical studies in Islamic economics, inflation is not merely related to the general increase in the prices of goods and services but also reflects underlying injustices regarding the distribution of resources and the fulfillment of society's needs.⁴⁸ This is in line with the views of contemporary scholars who argue that, despite lacking intrinsic value, paper money has been widely accepted by society as a legitimate medium of exchange. However, with the increasing use of paper money and the policy of printing currency without the backing of gold reserves, inflation has become more pronounced, resulting in a decline in the currency's purchasing power. Inflation is often understood as a consequence of the imbalance between the amount of money in circulation and the availability of goods and services, a condition that can be exacerbated by exploitative debt practices, which fall under the category of *riba*.⁴⁹ Therefore, inflation is not merely an economic issue that causes price increases but a deeper problem related to the fairness of transactions and the distribution of wealth in society.

Before further elaboration, it is important to note that many scholars have expressed differing opinions regarding the legal status of paper money in Islamic economics. Some scholars contend that paper money can be accepted as long as its purchasing power remains stable and it functions as a valid medium of exchange. However, they emphasize the importance of strict control over the issuance of paper money, considering the dependence on the trust placed in the issuing authorities and the risks of inflation that accompany it.⁵⁰ This is where we begin to observe the direct relationship between inflation and *riba*. For instance, inflation caused by an increase in the money supply without corresponding reserves of goods or services, compounded by *riba* practices, can undermine the justice principles that form the basis of Islamic economics. Practices such as generating money from money,

⁴⁸ Sami M. Abbasi, Kenneth W. Hollman, and Joe H. Murrey, "Islamic Economics: Foundations and Practices," *International Journal of Social Economics* 16, no. 5 (May 1, 1989): 5–17, <https://doi.org/10.1108/03068298910367215>.

⁴⁹ Ru'fah Abdullah, "Perbedaan Prinsip antara Riba dan Bunga Bank," *Al-Ahkam* 8, no. 2 (November 2017): 23–38, <https://doi.org/10.37035/ajh.v8i2.2880>; Muhammad Muhammad, "Hukum Riba Dan Bunga Bank Dalam Perspektif Ethico-Legal," *Al-Manahij: Jurnal Kajian Hukum Islam* 6, no. 2 (January 1, 1970): 319–31, <https://doi.org/10.24090/mnh.v6i2.607>.

⁵⁰ Syāfi'ī, *Muqaddimah Fi Al-Nuqūd Wa al-Bunūk*, 49.

without the exchange of real goods or services, exacerbate this instability and have the potential to undermine an economic structure that should be grounded in justice.⁵¹

An increase in the money supply, especially when coupled with unchecked currency printing or exploitative interest-bearing debt, can further destabilize the economy, particularly affecting vulnerable segments of society. This phenomenon aligns closely with the principles of Islamic economics, which reject *riba*, an exploitative system that generates profits without any real contribution to the productive economy, whether in the form of goods or services. *Riba* is viewed as a form of exploitation that harms individuals and can also disrupt the social and economic structure that should be just and balanced. Ultimately, such practices worsen economic inequality, creating a growing divide between the rich and the poor.⁵²

Money, in the perspective of Islamic Economics (*Mu'amalat*), is not only seen as a medium of exchange but also as a means to assess the exchange value of goods and services that reflects balance and justice. Therefore, uncontrolled inflation has the potential to undermine the fundamental principles of Islamic economics, which prioritize justice and balance.⁵³ In Islamic economic law (*Mu'amalat*), every transaction must be based on real and just value. When a country's monetary system relies on printing money without clear guarantees or involves interest-bearing debt, such practices will lead to inflation that harms the public, particularly when the purchasing power of the people is eroded by rising prices.⁵⁴ Inflation caused by an increase in the money supply without a corresponding increase in the production of goods and services can be viewed as an injustice within the monetary system according to the principles of Islamic Economics. In the framework of Islamic economics, the monetary system must ensure a balance between the circulating money and the economic capacity that can be produced and consumed. This imbalance, compounded by *riba* practices, leads to the concentration of wealth in the hands of a few, while the majority of society faces increasing pressures due to rising prices of goods and services that do not align with their income.⁵⁵ This perspective is in harmony with the views of classical scholars like Imam Ghazali, who emphasized that money should be fair and not harm any party in a transaction.⁵⁶ Ibn Taymiyyah also argued that a just monetary system must avoid any form of manipulation or depreciation of money that could harm the people.⁵⁷

⁵¹ Joseph Persky, "Retrospectives: From Usury To Interest," *Journal of Economic Perspectives* 21, no. 1 (January 1, 2007): 227–36, <https://doi.org/10.1257/jep.21.1.227>.

⁵² Constant J. Mews and Ibrahim Abraham, "Usury and Just Compensation: Religious and Financial Ethics in Historical Perspective," *Journal of Business Ethics* 72, no. 1 (March 14, 2007): 1–15, <https://doi.org/10.1007/s10551-006-9151-0>.

⁵³ Hans Genberg, "Currency Internationalisation: Analytical and Policy Issues," *SSRN Electronic Journal*, 2009, <https://doi.org/10.2139/ssrn.1628004>.

⁵⁴ Muhammad Ayub and M. Fahim Khan, "EVOLVING MONETARY ECONOMICS IN ISLAMIC PERSPECTIVE," *Journal of Islamic Monetary Economics and Finance* 7, no. 2 (April 21, 2021): 317–40, <https://doi.org/10.21098/jimf.v7i2.1372>.

⁵⁵ Dr. Khadijah Al-Nabrāwī, *Tabrīm Al-Ribā Wa Muwājibah Tahdīyāt al-'Aṣri* (al-Nahār li al-Ṭabā'ah wa al-Nasyr wa al-Tauzī, n.d.), 2:145-146.

⁵⁶ Dr. 'Ajil bin Jāsim al-Nasyimī, *Majallab Majma' al-Fiqh al-Islāmī*, vol. 3, 5 5 (Jeddah, 1988), 1625.

⁵⁷ Syaikh al-Islām Aḥmad bin 'Abd al-Ḥalīm Ibn Taimīyah, *Mamū' Fatawā Ibn Taimīyah* (Beirut-Lubnan: Dār Ihya' al-Kutub al-'Arabīyah, n.d.), 29:469.

Riba practices in the modern monetary system play a significant role in creating economic imbalances. In this system, the interest added to debts is not tied to productive economic activities, thus it only generates money from money, without the exchange of real goods or services. As a result, the flow of money increases without a corresponding growth in the production of goods and services, which in turn can trigger inflation. This phenomenon is closely linked to the economic crises faced by developing countries, which are often trapped in high-interest foreign debts. The burden of interest exacerbates the economic conditions of these countries, as they are forced to continue borrowing money to repay existing debts, ultimately increasing the money supply and worsening inflation. Developing countries trapped in such debt become mere subjects of financial exploitation by the lending nations.

In developing countries, inflation is often accompanied by an increasing burden of external debt. Reports from the International Monetary Fund (IMF) indicate that much of the debt in developing countries originates from interest-based loans, which worsen the economic conditions of these nations. The interest burden adds financial strain, in addition to the obligation to repay the principal debt. High inflation, triggered by the increase in money circulation due to interest-bearing debt, leads to economic instability that significantly impacts the social life of society. This is especially true for groups that do not have access to sufficient resources, as inflation not only erodes their purchasing power but also exacerbates existing economic disparities.⁵⁸

This issue is further aggravated by the global monetary system dominated by fiat currency (currency not backed by physical commodities such as gold or silver). Countries that use paper currency as their primary medium of exchange, such as the United States and European countries, have monetary policies that allow them to print large amounts of money without clear limitations. This leads to a devaluation of the currency, which in turn worsens inflation. Developing countries, which mostly rely on imports for goods and services, are particularly vulnerable to inflation as the prices of imported goods rise due to the devaluation of their currencies.⁵⁹ The principle of balance in Islamic economics stresses that the increase in the money supply must always be accompanied by an increase in the availability of goods and services. An imbalance between the amount of money and the available goods has the potential to cause inflation that harms society. In this context, the state must take steps to ensure that the monetary policy applied benefits more than just a few but also protects the interests of the entire society.⁶⁰

Contemporary Muslim scholars also emphasize the importance of the state's role in maintaining currency stability and avoiding *riba*-based systems that could worsen economic inequality. The state is responsible for regulating the circulation of money wisely, ensuring that the amount of money in circulation is in proportion to the economic capacity that can be produced and consumed. If the state fails to consider this, inflation will continue to rise

⁵⁸ Rubaa Saleh and Murat Ustaoglu, "The Notions of Islamic Economics and Finance in the Global Era," in *Islamic Finance Alternatives for Emerging Economies*, ed. Murat Ustaoglu and Ahmet Incekara (New York: Palgrave Macmillan US, 2014), 28–57, https://doi.org/10.1057/9781137413307_3.

⁵⁹ Karasik, Wehrey, and Strom, "Islamic Finance in a Global Context: Opportunities and Challenges."

⁶⁰ Siregar and Abdul Majid, "Macro."

and harm society, especially those who do not have access to protect their wealth.⁶¹ Inflation in the modern monetary system, particularly when caused by uncontrolled money printing and exploitative debt practices, has the potential to undermine the principle of justice in Islamic economics. The state plays a crucial role in managing economic stability and ensuring that the monetary policies implemented do not exacerbate social and economic inequality.⁶² In this regard, contemporary Muslim scholars remind us to always maintain balance in the monetary system in order to ensure the achievement of justice and welfare for all of humanity.⁶³

Towards a Monetary System Based on *Maqāṣid Ash-Sharī'ah*

The global monetary system's evolution has introduced significant challenges for Muslim-majority countries, especially in an economic context that not only prioritizes efficiency and growth but also considers the principle of social justice aligned with Islamic teachings. With the increasing reliance on fiat money, which has the potential to cause inflation and economic disparities, the need to explore a *Shariah*-based monetary system has become more urgent. In this context, the application of *Maqāṣid Ash-Sharī'ah* (the objectives of Islamic law) becomes crucial in creating a system that is not only economically just but also socially sustainable.

Maqāṣid Ash-Sharī'ah, as an approach in Islamic law, has evolved into more than just a set of concepts; it now functions as a philosophy that can be applied to various contemporary issues, including those in economic and financial analysis.⁶⁴ This approach not only focuses on traditional objectives such as the protection of religion, life, and wealth but also provides broader guidance in addressing more complex global issues, including inflation, *riba*, and financial instability in modern economic systems.

The application of *Maqāṣid Ash-Sharī'ah* as a philosophy of Islamic law emphasizes that this approach must be applied within the framework of modern law and economics to solve practical challenges, including those related to the monetary system. Contemporary *Maqāṣid Ash-Sharī'ah* scholars propose that *Maqāṣid Ash-Sharī'ah* should serve as the core philosophy guiding Islamic economic policies, enabling a more comprehensive analysis of the application of *Shariah*-based monetary systems in a rapidly evolving world. In this context, *Maqāṣid Ash-Sharī'ah* provides relevant principles to create a monetary system that not only focuses on economic growth but also prioritizes achieving *maṣlaḥah* (the welfare of the community) and avoiding *mafsadah* (social harm).⁶⁵

The principles of justice (*al-'adl*) and wealth protection (*hifẓ al-māl*) contained within *Maqāṣid Ash-Sharī'ah* form the foundation for a *Shariah*-based monetary system. In Islamic economic

⁶¹ Qāsim, *Majallab Majma' al-Fiqh al-Islāmi*, 3:1701.

⁶² Dowd and Timberlake, *Money and the Nation State*.

⁶³ Anggara et al., "Economic Stability in Islamic View"; Siregar and Abdul Majid, "Macro."

⁶⁴ Jasser Auda, *Maqāṣid Ash-Sharī'ah as Philosophy of Islamic Law: A Systems Approach*, ed. Jasser Auda (London: The International Inst. of Islamic Thought, 2008); Landy Trisna Abdurrahman et al., "SDGs and Islamic Studies: Fiqh Mu'āmalāt, Sustainable Development, and Maqashid Asy-Syari'ah," *Az-Zarqa: Jurnal Hukum Bisnis Islam* 14, no. 2 (September 22, 2022): 175, <https://doi.org/10.14421/azzarqa.v14i2.2583>.

⁶⁵ Necmeddin Güney, "Maqāṣid Al-Sharī'a in Islamic Finance: A Critical Analysis of Modern Discourses," *Religions* 15, no. 1 (January 16, 2024): 114, <https://doi.org/10.3390/rel15010114>.

theory, every monetary system should strive to achieve a fair balance, avoid exploitation, and distribute wealth transparently and justly.⁶⁶ Here, we see how fiat-based monetary systems, which often lead to inflation and disparities, are at odds with the core principles of Islam.

Riba, as a form of profit generated without a valid and just exchange, is often a primary cause of injustice in the modern monetary system. In conventional economics, *riba* serves as a mechanism for generating profit from debt without engaging in productive economic activities that benefit the broader society.⁶⁷ A monetary system that relies on large and exploitative interest-bearing debt has the potential to exacerbate economic imbalances, where wealth is concentrated in the hands of the powerful while the weaker parties become increasingly burdened by debt. As a solution, a Shariah-based monetary system emphasizes principles like profit-sharing (*mudārabah*) or fair trade (*murābahah*), which allows profits to be earned through lawful and productive transactions, without compromising justice and the welfare of the community.⁶⁸

Maqāṣid Ash-Shari'ah operates at various levels within Islamic law — general (*'ammah*), specific (*khaṣṣah*), and partial (*juḥḥiyah*) — as formulated by Ibn 'Asyur and later expounded upon by Jaser Auda. This framework can be applied to analyze economic disparities and social injustices in the monetary system.⁶⁹ At the general level (*'ammah*), *Maqāṣid Ash-Shari'ah* emphasizes the protection of basic human needs, including wealth (*māl*), which must be safeguarded from detrimental practices like *riba*. A sound Shariah-based monetary system requires strict control over the printing of money and monetary policies to ensure that economic growth does not solely focus on the accumulation of wealth by a few, but rather strives to create shared prosperity for all.

At the specific level, *Maqāṣid Ash-Shari'ah* directs policies that prevent the excessive use of money without being matched by adequate production. The state must ensure that the implemented monetary policies align with Shariah principles, ensuring fair wealth distribution and economic stability that favors the welfare of the community. In this regard, instruments like sukuk (Islamic bonds) can replace interest-based financial tools, offering more just investment alternatives for society with the advancement of technology, asset-backed currencies, such as cryptocurrencies, guaranteed by commodities or tangible assets, offer a new way to structure a monetary system that is more transparent and based on stable value. By utilizing this digital technology, society can conduct transactions more efficiently and securely, without relying on excessive money printing or inflation caused by uncontrolled

⁶⁶ Laila Fauzila Zahera, Rusmitha Devy, and Vivi Meilani, “Kebijakan Moneter Dalam Ekonomi Islam,” *Akuntansi Dan Ekonomi Pajak: Perspektif Global* 1, no. 3 (June 5, 2024): 01–13, <https://doi.org/10.61132/aeppg.v1i3.173>.

⁶⁷ Muhammad, “Hukum Riba Dan Bunga Bank Dalam Perspektif Ethico-Legal”; Mohamed Alhassan Mohamed Hamed Alhodairy, “The reason for usury of gold and silver and its impact on the issuance of banknotes: a descriptive and analytical study (Libyan dinar as a model),” *ARID International Journal of Social Sciences and Humanities*, January 15, 2023, 294–313, <https://doi.org/10.36772/arid.ajssh.2023.5913>.

⁶⁸ Saim Kayadibi, “The Theory of Syarī'ah Oriented Public Policy,” *AHKAM: Jurnal Ilmu Syariah* 15, no. 2 (July 20, 2015), <https://doi.org/10.15408/ajis.v15i2.2861>.

⁶⁹ Mohammad Fauzan Ni'ami and Bustamin Bustamin, “MAQĀṢID AL-SYARĪ'AH DALAM TINJAUAN PEMIKIRAN IBNU 'ĀSYŪR DAN JASSER AUDA,” *JURIS (Jurnal Ilmiah Syariah)* 20, no. 1 (June 21, 2021): 91, <https://doi.org/10.31958/juris.v20i1.3257>.

monetary policies.⁷⁰ In a Shariah-based monetary system, cryptocurrencies could be used to avoid the negative influences of *riba*, ensuring that the flow of money does not generate unjust or excessive profits for any single party.⁷¹

To create a monetary policy management system that aligns with *Maqāṣid Ash-Shari'ah*, the state plays a crucial role. The government must ensure that policies implemented do not only benefit a few but also protect the interests of society as a whole. As part of its social responsibility, the state must ensure that its policies benefit society widely, not just specific groups. The state should facilitate the development of financial technologies in line with Shariah principles, helping to realize the objectives of Islamic law, including the use of asset-backed cryptocurrencies.⁷² By providing a clear legal framework for the implementation of commodity-backed cryptocurrencies or other Shariah-compliant instruments, the state can encourage the adoption of a fairer, decentralized, and *riba*-free system. In this context, the government plays a vital role in ensuring that the Shariah-based monetary system functions effectively, guarantees the welfare of society, and maintains a balanced and just economy.

Furthermore, education and socialization regarding the Shariah-based monetary system are crucial. The state must ensure that society, including the banking and financial sectors, understands the fundamental principles of a Shariah-based monetary system. In doing so, the state will not only manage the monetary system wisely but also ensure that the public understands how to engage in transactions fairly and in line with Shariah principles. An ideal Shariah-based monetary system prioritizes not only economic growth but also the creation of widespread welfare for all segments of society. *Maqāṣid Ash-Shari'ah* emphasizes the importance of human development (SDM) as an integral part of sustainable economic development.⁷³ A state that adopts a Shariah-based monetary system must focus on human resource development that is not only oriented toward the achievement of material wealth but also the improvement of quality of life, education, and community empowerment.

Economic development based on the principles of *Maqāṣid Ash-Shari'ah* prioritizes the fair distribution of resources while addressing the basic needs of human beings.⁷⁴ Therefore, the state needs to create policies that promote social justice, minimize economic disparities, and ensure that every individual has equal access to opportunities to participate in the economy.

⁷⁰ Mustafa Omar Mohammed, Mohamed Cherif El Amri, and Ayman Mohammad Bakr, "Guiding Fiqh Analysis of Crypto Assets: A Proposed Framework," *AHKAM: Jurnal Ilmu Syariah* 24, no. 2 (2024): 277–94, <https://doi.org/10.15408/ajis.v24i2.37346>.

⁷¹ Yudhi Achmad Bashori, Khairil Umami, and Soleh Hasan Wahid, "MAQASID SHARIAH-BASED DIGITAL ECONOMY MODEL: INTEGRATION, SUSTAINABILITY AND TRANSFORMATION," *Malaysian Journal of Syariah and Law* 12, no. 2 (August 31, 2024): 405–25, <https://doi.org/10.33102/mjssl.vol12no2.647>; Mohammed, Amri, and Bakr, "Guiding Fiqh Analysis of Crypto Assets: A Proposed Framework."

⁷² Aditya Jayeshkumar Bhatt and Kesha Sisodia, "Use of Blockchain in Islamic Finance," in *Leveraging Blockchain Technology*, by Shaun Aghili, 1st ed. (Boca Raton: CRC Press, 2024), 184–95, <https://doi.org/10.1201/9781003462033-14>.

⁷³ Abdurrahman, "Pendekatan Maqāṣid Al-Syarī'ah Kontemporer Dalam Perilaku Ekonomi."

⁷⁴ Sifat and Mohamad, "Revisiting Fiat Regime's Attainability of *Shari'ah* Objectives and Possible Futuristic Alternatives."

A Shariah-based monetary system, with a focus on fairness and wealth protection, can create a more inclusive and just economy.⁷⁵

The move toward a Shariah-based monetary system is an essential step toward creating a just and sustainable economy. By using *Maqāṣid Ash-Shari'ah* as a foundation, this monetary system can ensure a more equitable distribution of wealth, avoid exploitative *riba* practices, and maintain economic stability that favors the welfare of society. The use of Shariah-compliant financial instruments like sukuk and the wise management of monetary policies by the state will enable the achievement of these objectives.⁷⁶ Despite the significant challenges in implementing a *Shariah*-based monetary system within the increasingly complex global context, efforts to apply *Shariah* principles in the monetary system must continue to be encouraged. Through technological integration, prudent money management, and a financial system free from *riba*, a just *Shariah*-based monetary system can be created and provide benefits for humanity in a fair and equitable manner.

Conclusion

This research has explored the historical changes in the value of money within Islamic economics, focusing on how the development of the monetary system, particularly the transition from metallic money (gold and silver) to paper money, has impacted the principles of Islamic economics. The main finding of this study is that in the Islamic monetary system based on gold and silver, the stability of the currency value is well-maintained due to the intrinsic value of these precious metals. However, with the emergence of paper money and fiat monetary systems, which rely more on trust in the issuing authorities, inflation and economic instability have become significant challenges. This inflation, exacerbated by the practice of *riba*, not only creates economic imbalances but also undermines justice in wealth distribution, which contradicts the principles of *Maqāṣid Ash-Shari'ah*, particularly the protection of wealth and the welfare of the ummah.

In this regard, the influence of *riba* and the increasing inflation are key issues that potentially worsen social imbalances. Therefore, applying the principles of *Maqāṣid Ash-Shari'ah*, such as justice and wealth protection, is crucial in creating a more stable and sustainable monetary system. One important finding is the need for the state's role in regulating monetary policy, particularly in avoiding practices that can exacerbate imbalances and inflation. This research also highlights the potential for technology-based solutions, such as the use of asset-backed currencies or cryptocurrencies, which could provide an alternative monetary system that is more transparent, stable, and free from *riba*, in line with Shariah principles.

However, this study also has limitations, particularly regarding the direct application of these solutions in the complex global practice, as well as the challenges in implementing Shariah-based monetary policy on a large scale. An ideal Shariah-based monetary system would require substantial reforms in the existing global financial system, which might be difficult given the world's dependence on the fiat monetary system that has been in place for

⁷⁵ Kayadibi, "The Theory of Syarī'ah Oriented Public Policy"; Fakhruddin et al., "From Fiqh Al-Ibadat to Mu'āmalāt."

⁷⁶ Handayani, "Hukum Ekonomi Syariah."

so long. Furthermore, there are regulatory challenges and the global acceptance of asset-backed currencies in countries with a diverse Muslim population.

For future research, it is recommended that more in-depth studies be conducted on the implementation of a Shariah-based monetary system in developing countries, examining the potential risks and benefits. Further research could focus on the development of more flexible Shariah financial instruments, such as sukuk or commodity-backed cryptocurrencies, and their impact on economic stability and social imbalances. It is also important to explore how Shariah-based monetary policies can be integrated with global monetary policies to achieve a fairer and more equitable welfare for the ummah.

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