

Revisiting the Riba and Interest Connection

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Abstract

The conventional Islamic Banking mainstream defines the Interest as being conceptually the exact equivalence of Riba. This paper is about to reexamine this premise that "Interest is exactly equivalent to Riba." The arguments elaborates that Interest is a fundamental, pervasive as well as a natural concept which affects the economic life in two distinct forms known as "Natural Rate of Interest" and "Banking Rate of Interest". Moreover, in the real world and practice, interest is present in every exchange contract signed among parties, particularly, in the contracts embracing the exchange of a present certain resource against a future uncertain one. This kind of interest rate that is prevailing in the daily life can be viewed as "Contractual Interest Rate". Therefore, interest in its very essence must not generally be regarded as equivalent to Riba. What could be obtained from diving into the holy verses of Quran and delving into the narrations (Ahadith), guides us to the conclusion that Interest in general is not and should not be viewed as being considered the same as Riba, It is concluded that the concept of Riba is related with the "unjust contractual interest rate" and "the unlimited accumulation of debts over time". The realization of very instances of Riba is only possible under a critical scrutiny in the way that risk is distributed among the parties in a legal contracts, Based on this argument, Riba could not be confined to only Qarz contracts and it could occur in all contracts including those vastly used in Islamic banking.

Keywords: Interest, Riba, Qarz, Debt, Islamic Banking, Islamic Economics.

JEL Classification: A12, E43, E50.

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