



البنیان: مجلة متعددة التخصصات لدراسات القرآن والحديث

Al-Bunyan: Interdisciplinary Journal of Qur'an and Hadith Studies

ISSN: 3031-3864

DOI: <https://doi.org/10.61166/bunyan.v3i2.74>

Vol. 3 No. 2 (2025)

pp. 236-246

Research Article

The Institution of Riba: Qur'anic Prohibition, Scholarly Interpretations, and the Dichotomy between Usury and Interest

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Received : September 12, 2025

Revised : October 18, 2025

Accepted : November 14, 2025

Available online : December 29, 2025

How to Cite: Ganaie, B. A., & Riyaz Ahmad Bhat. (2025). The Institution of Riba: Qur'anic Prohibition, Scholarly Interpretations, and the Dichotomy between Usury and Interest. *Al-Bunyan: Interdisciplinary Journal of Qur'an and Hadith Studies*, 3(2), 236-246. <https://doi.org/10.61166/bunyan.v3i2.74>

Abstract. *Riba* is a topic of considerable debate in contemporary scholarship. Its prohibition is central to Islamic economic and moral philosophy, serving as a foundational principle that distinguishes Islamic finance from conventional financial systems. The Qur'an characterizes *riba* as a source of injustice and exploitation that undermines social equity and compassion. The Sunnah reinforces its gravity by categorizing it among the most serious transgressions. This study investigates Islamic teachings regarding the prohibition of *riba*. Although the prohibition is explicit, some scholars have challenged the operational definition of *riba* and presented arguments in its favor. This research critically evaluates these arguments, examines contextual interpretations of *riba* within changing economic frameworks, and traces the historical evolution of the distinction between usury and interest

to determine its consistency with Islamic jurisprudence. The results demonstrate that the prohibition of *riba* reflects Islam's commitment to promoting justice, equity, and moral integrity in economic interactions.

Keywords: Islam, interpretations, *riba*, usury and interest.

INTRODUCTION

The fundamental principle of Islamic finance is the prohibition of *riba*, which is often considered a central component of the modern financial system. This principle marks a significant departure of Islamic finance from conventional financial systems. It is crucial to examine the concept of *riba* in detail, as it forms the foundation upon which the Islamic financial paradigm is constructed. The term *riba* literally means addition, increase, or excess, referring to any charge over and above the principal of a loan or debt.¹ In essence, it denotes a prohibited gain, which is condemned in all divine religions.² In Islamic law, *riba* is technically defined as the "premium" that must be repaid by the debtor to the creditor along with the principal amount of the loan or debt, as a condition for granting the loan or extending its maturity.³ In this context, conventional interest-bearing transactions are equivalent to *riba*-based transactions, rendering such transactions void, a view unanimously held by Muslim jurists.⁴

However, *riba* is a broader concept than interest; while interest is a charge for the use of money, it is always regarded as *riba*. Nonetheless, *riba* is not limited to interest alone; it encompasses all non-monetary exchanges involving sale and exchange transactions.⁵ It also refers to the exploitation of vulnerable sections of society through the act of lending money at a cost termed interest.⁶ *Riba* represents an excess or unjustified appropriation of income, which contradicts the principles of tawhid, brotherhood, and the Islamic perspective on income distribution.⁷

RESEARCH METHODOLOGY

This study adopts a qualitative, analytical, and descriptive research design to examine the institution of *riba* from Qur'anic, historical, and contemporary perspectives. The research primarily focuses on understanding the nature and prohibition of *riba* in Islamic scriptures, critically assessing scholarly interpretations,

¹ Mawdudi, Abul Ala. *Economic System of Islam*, 4th ed., Khurshid Ahmad (ed.), Islamic Publication, Lahore, 1999, p. 107. Also in Mawdudi, 1999, P.160.

² Yahia, Abdul Rehman, *The Art of Islamic Banking and Finance: tools and Techniques for Community Based Banking*, John Wiley and Sons, United States, 2010, p. 16.

³ Chapra, Umer, *Towards a Just Monetary System*, The Islamic Foundation Landon, United Kingdom, 1985, p. 55.

⁴ Balala, Maha Hanaan, *Islamic Finance and Law: Theory and Practice in the Globalised World*, Palgrave Macmillan, 2011, p.25.

⁵ Ayoub, M., *op. cit.*, p. 49.

⁶ Yahia, Abdul Rehman, *op. cit.*, p. 2.

⁷ Choudhury, M.A., *Contribution to Islamic Economic Theory: A Study in Social Economics*, Palgrave Macmillan, United States, 1986, p. 11.

and exploring the constructed dichotomy between usury and interest within modern financial discourse.

Riba al-Nasī'ah and Riba al-Faḍl

In the context of Sharī'ah, the concept of “*riba*” is interpreted in two distinct manners: *riba* al-Nasī'ah and *Riba al-Faḍl*. The term “nasī'ah” is derived from an Arabic root signifying postpone, defer, delay, or wait, thereby indicating a postponement in the delivery of a commodity within a transaction. Alternatively, it may be construed as the timeframe afforded by the creditor to the debtor within a transaction, where the debtor is obliged to remit the debt along with an additional premium or increment. This premium is deemed a reward for the concession of time granted, which is rendered impermissible according to Sharī'ah. Consequently, *riba* al-Nasī'ah denotes interest on loans, which is unequivocally prohibited in the Qur'ān, and there exists a consensus among jurists regarding its illegality.⁸

Riba al-Faḍl

Islam addresses not only the inherent exploitation associated with *riba* but also exhorts its followers to safeguard themselves against all modalities of deception and inequitable exchanges in commercial dealings. *Riba al-Faḍl* may arise in sales or exchange transactions wherein one party may perceive the potential for deception and exploitation. The fundamental rationale underlying the prohibition of *Riba al-Faḍl* is to uphold justice and equitable conduct in commercial transactions, which, in turn, fosters economic growth and development. Any imposition of “excess” by either party in a commercial transaction is classified as *Riba al-Faḍl*. Although, in business transactions (sale or exchange), any “excess” must be accompanied by an acceptance of the risk of loss. *Riba* al-Nasī'ah can be succinctly elucidated, whereas *Riba al-Faḍl* presents greater complexity as it encompasses a broad spectrum of business activities and contractual agreements. This complexity is reflected in H. 'Umar (R.A)'s assertion that “The Prophet ﷺ departed from this world without providing us with an exhaustive explanation of it,” and he advocates for the avoidance not only of *riba* but also of any engagements that might evoke uncertainty regarding its legitimacy (*riba*).⁹

Prohibition of Riba in the Qur'ān and the Sunnah

Qur'ān provides a number of verses which prohibit *riba*. However, the first verse regarding discouragement of *riba* was revealed in Makkah but final and repeated prohibition came in 632 A.D in Madinah. The constant prohibition and condemnation of *riba* is reflected in various verses of the *Qur'ān* as given below:

That which you give as *riba* to increase the people's wealth increases not with God but that which you give in charity, seeking the goodwill of God, multiplies manifold.¹⁰

⁸ Chapra, Umer, *opcit.*, 1985, p. 57.

⁹ Al-Qaziwin, Ibn Majah, *Sunan ibn Majah* (Tr. English, Nasiruddin al- Khattb), Vol.3, Maktaba Darussalam, Riyadh Saudi Arabia, 2007, p. 300.

¹⁰ Holy *Qur'ān*, 30:39, Translation of the Meanings and Commentary by Abdullah Yusuf Ali, Adeel Shaikh, 1st Edition, 2020, P. 300.

And for their taking *riba* although it was forbidden for them, and their wrongful appropriation of other people's property. We have prepared for those among them who reject faith a grievous punishment.¹¹

O believers, take not doubled and redoubled *riba*, and fear Allah so that you may successful. Fear the fire which has been prepared for those who reject faith, and obey Allah and the Prophet, so that you may get mercy.¹²

Those who consume *riba* cannot stand on the Day of Judgment except as one stands who is being beaten by *Satān* into madness; this is because they say: 'Trade is just like; interest' but God has permitted trade and forbidden interest. So whoever has received the admonition from their Lord and desist, may keep their past gains, their case being entrusted to God; but those who returns, shall be the companions of the fire and abide therein eternally forever."¹³

Allah destroys *riba* of all blessing but increases charity; He does not love any un-grateful sinner.¹⁴

O, you who believed, fear Allah, and give up what remains of you due to *riba*, if you are true believers.¹⁵

If you do not, then take notice of war from Allah and His Messenger. But, if you repent, you can have your principal. You don't wrong, nor are you wronged¹⁶

And if the debtor is in hardship, let him have respite until it is easier, but if you forego it as charity, it is better for you if you realize.¹⁷

And fear a Day when you shall be returned to God, then everybody shall be paid in full what he has earned and they shall not be wronged.¹⁸

It is obvious from the above verses of the *Qur'ān* that there is a clear-cut prohibition of *riba* from almighty Allah.

The Prophet ﷺ has also disdained the institution of *riba* in most unambiguous words. Numbers of traditions (*Ahadīth*) are attributed to various aspects of *riba* such as forbidding of *riba*, forms of *riba* and the severity of its sin. The following Traditions of Prophet ﷺ are note-worthy to mention, as these traditions reflect the basis of various principles and rulings related to the economic transactions.

a) From Jabir (R.A):

The Prophet ﷺ cursed the receiver and the payer of interest, the one who records it and witnesses the transaction and said: 'They are all alike; [in guilt]'.¹⁹

b) From Anas ibn Malik (R.A): The Prophet said:

When one of you grants a loan and the borrower offers him a dish, he should not accept it and if the borrower offers a ride on an *animal*, he should not ride, unless

¹¹ Ibid, 4:161, p.73.

¹² Ibid,3:130, p.50

¹³ Ibid., 2:275, P. 37.

¹⁴ Ibid, 2: 276, p. 37

¹⁵ Ibid, 2: 278, p.37.

¹⁶ Ibid, 2:279, p.73

¹⁷ Ibid, 2:280, p.73.

¹⁸ Ibid, 2:281, p.73.

¹⁹ Al-Naysaburi, Muslim ibn al-Hajjaj, *Sahih Muslim (Tr. English Nasiruddin al-Khattab)*, vol.4, Maktaba Darussalam, Riyadh Saudi Arabia, 2007, p. 319.

the two of them have been previously accustomed to exchanging such favors mutually.²⁰

c) Regarding the nature of interest during pagan times Zaid B. Aslam reported:

When a person owed money to another man for a certain period and the period expired, the creditor would ask: 'you pay me the amount or pay the extra'. If he paid the amount, it was well and good, otherwise the creditor increased the loan amount and extended the period for payment again.²¹

d) The holy Prophet ﷺ proclaimed the embargo of *riba* in express terms on the occasion of his last Hajj, which was the most attended gathering of his Companions. The Prophet said:

Every form of *riba* is cancelled, capital indeed is yours which you shall have, wrong not and you shall not be wronged. Allah has given His Commandment totally prohibiting *riba*. I Prophet ﷺ start with the amount of *riba* which people owe to my uncle Abas (R.A) and declare it all cancelled. He then, on behalf of his uncle, cancelled the total amount of *riba* due on his loan capital from his debtors.²²

e) The Prophet ﷺ said:

Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt – like; for like; , equal for equal, and hand to hand; if these classes differ, then you may sell as you wish, provided that the exchange is hand to hand.²³

f) Abu Said narrated:

Hadhrat Bilal (R.A) once visited the Messenger of Allah ﷺ with some *barni* (high quality) dates, the Prophet ﷺ asked about their source. Bilal explained that he traded two volumes of lower quality dates for one volume of that of the higher quality. The Prophet ﷺ said: "This is precisely the forbidden *riba* ! Do not do this. Instead, sell the first type of dates against something (cash), and use the proceeds to buy the others.²⁴

There is a constant dissuasion of Prophet ﷺ for the engagement in *riba* transactions as Prophet Muhammad ﷺ said:

Usury has seventy degrees and the least one is equivalent to a person having sexual intercourse with his mother.²⁵

In another tradition Prophet Muhammad ﷺ said:

on the night of *me'raj* when we reached the sky I looked upward and saw thunder, lightings, then, I came across some people whose stomach seems to be

²⁰ Al-Baihaqi, Musa al-Khusrawjirdi, *Sunan al-Kubra*, Idratal Maaraf, Hyderabad, 1344 H, Kitab al-Buyu', Bab kulli qardin jarra manfa'atan fa huwa *riba* . Cf, Muhammad, Ayoub, *Understanding Islamic Finance*, John Wiley and sons, USA, 2007, p. 46.

²¹ Anas, Malik ibn, *Muwatta* (Tr. English By Prof. Muhmmad Hamidudin), Kitab Bhavan, New Delhi, 2015, Tradition No. 1362, p. 311.

²² Al-Khazin, Ali bin Muhammad ibn Ibrahim, *Tafsir al-Khazin*, Mustafs al-Babi, Egypt, 1955, vol. 1, p. 301, Cf. M., Ayoub, *op. cit.*, p.46.

²³ Al-Hajjaj, Muslim ibn Qushayri, *Sahih Muslim*, (Tr. English, Nasiruddin al-Khattab, vol.4, , Maktaba Darussalam, Riyadh Saudi Arabia, 2007, p.306.

²⁴ *Ibid.*, p. 314

²⁵ Al-Qaziwin Ibn Majah, , *Sunan ibn Majah* (Tr. English By Nasiruddin al- Khattb), Vol.3, , Maktaba Darussalam, Riyadh Saudi Arabia, 2007,p.299.

houses full of snakes one could see them from the outside, I asked Jabril, who are they? He replied, "they are those who are taking *riba*."²⁶

So it elucidates from the above references of the *Qur'ān* and the *Sunnah* that indulgence in *riba* transaction is akin to waging war against Allah and His Messenger ﷺ not only the creditor but borrower as well as witness to *riba* based transaction, or giving helping hand to it, is tantamount to grave sin and is repeatedly discouraged in the primary texts of Islam.

Misconceptions and Misgivings Regarding *Riba* and Scholarly Replies

It is worthwhile to mention that in the beginning, there was no any disagreement among Muslims about the proscription of *riba* and whole Muslim community viewed indulgence in the institution of *riba* as a grave sin. As there are diverse views regarding the meaning of *riba* or what termed as *riba*, which are required to avoid in economic transactions based on *Shari'ah*.

The concept of *riba* is not free from controversies. At present various arguments were put forth by various Islamic scholars regarding the prohibition of institution of interest. Some scholars interpreted *riba* in such a way which is beyond the comprehension of majority of Muslim scholars throughout the course of history and that is also in contrast with the clear-cut statements of Holy Prophet (ﷺ). Below are given some contentious points which are very important to understand in order to get the clear comprehension of the institution of *riba*:

1. Some scholars have posited that only a specific form of *riba*, namely *riba al-jāhiliyyah*, is prohibited. This form was prevalent when the *Qur'ān* was revealed, and the prohibition of *riba* was intended to protect borrowers from enslavement. According to scholars such as Fazlur Rehman,²⁷ the conventional interest of the financial and banking system does not fall under this category of prohibition,²⁸ which exclusively pertains to *riba al-jāhiliyyah*. *Riba al-jāhiliyyah* referred to a loan or debt where the creditor demanded repayment at maturity, and if the debtor was unable to pay, the principal was doubled, offering the debtor the choice to either settle the debt or incur an additional charge. Furthermore, some scholars assert that if an amount is charged to a loan in advance, it does not constitute *riba*. However, this view appears to contradict the injunctions of the *Qur'ān* and the *Sunnah*, as various forms of *riba* existed in pre-Islamic Arabia, including increases over loans and debts, all of which were forbidden. Similarly, the interest charged by conventional banks on debts or loans is arguably more severe than *riba al-jāhiliyyah*, as interest is charged both at the time of transaction execution and in cases of payment delays. Additionally, the contemporary practice of compounding debt still resembles *riba al-jāhiliyyah*.
2. Secondly, It is also misunderstood that only a high rate of interest, termed as usury, falls under the prohibition, while any flexible charge is not considered *riba*. This

²⁶ Ibid., p. 299.

²⁷ Rehman, Fazlur, "Riba and Interest" Dr Muhammad Hamidullah Library, International Islamic University Islamabad, vol.3, No. March, 1964, pp. 1-43.

²⁸ Kuran, Timur, "Islamic Economics and the Islamic Sub-Economy" *Journal of Economic Perspective* American economic Association, Vol., 9, Number 4, 1995, pp. 156-7.

argument appears unfounded, as the Qur'ān clearly states that anything above the principal amount of a loan or debt is *riba*. Ibn Jarir al-Tabari,²⁹ in his explanation of verse 279 of Sūrah al-Baqāra, emphasizes that the creditor is entitled only to the original amount of the debt without any interest or profit.³⁰

3. It is also argued that Umar (R.A)³¹ once contended that the Prophet ﷺ did not provide specific guidance regarding the meaning of *riba* before his passing. However, the Shariat Appellate Bench of the Supreme Court of Pakistan has thoroughly addressed this issue, concluding that 'Umar (R.A) had no doubt about the prohibition of *riba al-nasī'ah*.³²
4. It is sometimes suggested that because today's borrowers aren't necessarily impoverished, charging them interest is acceptable. However, this argument inadvertently strengthens the case against interest. The wealthier segment of society—those with access to resources—often obtain funds at relatively low rates compared to their potential profits. They then return a small fraction of those profits to the bank as interest, treating it as a mere expense. This cost is ultimately passed on to consumers, exacerbating the wealth gap. Furthermore, when these individuals experience losses (and of course this sometimes happens), they become vulnerable, potentially leading to unethical behavior and harm to societal structures.
5. A final argument posits that commercial interest wasn't widespread when the prohibition against *riba* was established, and only a specific type of *riba* – interest on consumption – was forbidden. Therefore, interest on commercial loans supposedly falls outside these prohibitions. This claim also proves to be incorrect. The Shariat Appellate Board has carefully examined this matter and concluded that commercial or productive loans were not unknown to the Arabs during the period when *riba* was outlawed. Abundant historical documentation confirms the prevalence of commercial and productive lending, both before and after the advent of Islam; these loans facilitated various productive activities.³³

All types of loans including commercial, agricultural and industrial loans offered on the basis of interest were in vogue in Byzantine Empire governing Syria. The *Makkans* had a good business relationship with Syrians and Arab traders, who used to import and export goods from there. The Byzantine Emperor (Justinian) proclaimed a law determining the interest rates which were being charged from different types of debtors. Therefore, it is not right to say that restriction of *riba* was

²⁹ Muhammad Jarir-al Tabari (839-923AD) was a notable scholar, exegete and historian. He wrote on different fields like, ethics, lexicography, history, mathematics, poetry, medicine and many others and is titled as prolific polymath.

³⁰ Tabari, Muhammad Jarir, Jaim 'al Bayan, Darul Maarif, Egypt, vol. 6, n.d., pp. 26, 27, Cf. Ayoub, M., 2007, p. 50.

³¹ H. Umar (R.A) (584 CE- 644 CE) was one of the prominent companion of Prophet ﷺ and was the second caliph of Muslim world. He is famous for his generosity and justice and earned the title of *Al-Farooq*.

³² Shariat Appellate bench, 2000, pp. 539-543. Cf, *Understanding Islamic Finance*, Mohd, Ayoub, John Wiley and Sons, USA, 2007.

³³ Ayoub, M., *op. cit.*, pp. 50, 51.

confined to only consumption loan and did not cover productivity or commercial loans.

Dichotomy between Usury and Interest

Anything that exceeds the principal sum of the loan is classified as *riba*. Nevertheless, the concept of *riba* was bifurcated into two distinct categories: usury and interest during the mid-15th century, a distinction established by the monarchy and ecclesiastical authorities in England in 1545 A.D., delineating a permissible maximum (interest) and an impermissible maximum (usury). In the 16th century, legislative measures regarding usury were enacted in England, which established an interest rate threshold of 5% as legitimate interest, while rates exceeding this figure were deemed usurious and thus prohibited.³⁴ The term “usury” is etymologically derived from Latin and was historically regarded as synonymous with *riba*, whereas “interest” was perceived as a separate construct. The advocacy for interest was notably championed by Calvin and Molinaeus during the mid-16th century; as trade, industry, and commerce expanded, there emerged a palpable demand for financing, prompting economists and scholars to rationalize interest. With the onset of the Industrial Revolution in the 18th century, this movement acquired additional impetus, thereby obscuring the rationale presented in support of the prohibition of interest. Nevertheless, the distinction between exorbitant rates (usury) and minimal rates (interest) lacks substantive coherence in practice, as any figure above zero has the potential to engender exploitation in the long term, particularly evident in the context of developing nations. The interest rate that is currently deemed reasonable may be classified as usurious in the future, and conversely, a rate that is perceived as usurious today could be rendered justifiable in light of economic inflation.³⁵ This troubling dichotomy has been constructed to mislead society and perpetuate a traditional form of exploitation in a more contemporary guise. It is pertinent to note the observations made by J.L. Hanson: The designation of usury, presently restricted to high rates of return on loans, originally encompassed both low and high rates. The medieval ecclesiastical authorities adhered to the Mosaic law and the philosophical writings of figures like Aristotle, who characterized *riba* as unlawful, unjust, and deserving of condemnation.³⁶

Rationale of the prohibition of *Riba*

A plethora of arguments emanate from diverse perspectives regarding the rationale behind the prohibition of *riba*. The fundamental assertion posits that it serves as a mechanism for the transference of wealth from the impoverished to the affluent, thereby not only widening the chasm between the rich and the poor but also intensifying societal issues, as evidenced by the propensity to repay previous debts through the accrual of additional debt, a characteristic of the interest-based financial

³⁴ Hanson, J. L., *A Dictionary of Economics and Commerce, Macdonald and Evans, 1967, pp.470-471.*

³⁵ Ayoub, M., *op. cit.*, p. 55.

³⁶ Hanson, J.L., *op. cit.*, pp. 470-471.

system that fosters exploitative practices such as debt traps and economic bondage. Presently, numerous underdeveloped nations are confronting analogous predicaments. *Riba* functions as an instrument of exploitation whereby the affluent dominate the impoverished; for instance, the contemporary institution of interest has evolved into a means through which capitalist nations exploit and exert control over developing countries. Historical evidence substantiates the assertion that the "Ottoman Empire" was subjugated by European powers via the institution of interest.³⁷ Furthermore, the rationale underpinning the prohibition is predicated on the necessity to safeguard debtors and consumers from the predatory practices of the economically privileged.

The another reason behind its prohibition is intended for socio-economic distributive justice and to prevent hoarding and concentration of wealth in the hands of few, which results in decreasing the power purchasing partiality and leads to economic instability. It halts the process of circulation which is soul of economic growth and development, as argued by various economists. Another intention of the ban is to promote the message of love, brotherhood, cooperation and tranquility in society. As Abu Ala' Mawdudi³⁸ held that the main intention behind its prohibition is to transform the stinginess and selfishness character of capitalistic system with generosity, love and cooperation³⁹ and same view was also supported by Yusuf Ali⁴⁰ by echoing that interest creates parasites in society as it promotes unemployment, inequality of income and wealth, poverty, budget deficits and various macro-economic problems. In order to check these issues the prohibition of *riba* is logical. Besides, prevention of *riba* is associated with the Islamic view of social justice, equality and property rights.

CONCLUSION

In conclusion, the prohibition of *riba* is distinctly articulated within the Qur'an and the Sunnah, representing a cornerstone of the ethical and socio-economic paradigm advocated by Islam. The restriction on *riba* extends beyond a mere religious command, embodying a holistic ethical doctrine aimed at fostering justice, equity, and societal cohesion. By discouraging exploitative financial behaviors, Islam seeks to avert the accumulation of wealth, economic subjugation, and the ethical decline that arises from unbridled materialism. The binary often presented between usury and interest in modern economic discussions serves as a calculated effort to obscure the intrinsic inequity associated with interest-based transactions. This differentiation is fundamentally contrived and functions to validate practices that violate the explicit prohibitions delineated in the foundational texts of Islam. The rationalizations advanced by certain contemporary scholars, including Sir Syed Ahmad Khan, Rashid

³⁷ Ayoub, M. *op. cit.*, 2007, p. 56. Also in Zaman, 2001, p.71.

³⁸ Abu Ala Maududi (1903-1979) was a prolific Islamic scholar and author, jurist, historian, activist etc. He was the author of various works encompassing different disciplines such as *tafsir*, *Hadith*, history, law and philosophy.

³⁹ Mawdudi, Abu-ala, *Economic System of Islam*, 4th ed., Khurshid Ahmad, Islamic Publication Lahore, 1999, p. 167.

⁴⁰ Yusuf Ali was a prolific Islamic scholar and an eminent translator of holy *Quran* into English.

Rida, and Fazlur Rahman, to endorse the acceptability of interest fail to withstand rigorous analysis when evaluated against the textual foundations and ethical imperatives of Islamic jurisprudence.

Furthermore, the justification for the prohibition of *riba* is not exclusively theological but is also deeply rooted in logical reasoning and socio-economic rationale. It embodies Islam's dedication to the establishment of a fair and equitable economic system founded on compassion, collaboration, and moral responsibility. Consequently, any reinterpretation that seeks to align *riba* with modern financial frameworks without confronting its exploitative characteristics undermines the core principles of Islamic economic justice. The persistent significance of the Qur'anic directives against *riba* thus resides in their ability to promote both ethical integrity and sustainable socio-economic prosperity.

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