



Shari'ah and Digital Currencies: Analyzing Cryptocurrency in the Islamic Finance Framework

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ABSTRACT

From the historical development of currency and an Islamic perspective, it is evident that the use of any specific form of currency whether gold, silver, or any other medium is not mandated by religious commandments. Instead, currency is seen as a social convention, determined by what people collectively agree to use as a means of exchange. The emergence of cryptocurrency, or technology-based money, has instigated deliberations on whether it complies with Shari'ah rules and how it will affect the financial and economic sectors, especially in the context of the Islamic financial environment. As a result, in today's high-tech world, the necessity for research into the possible effects of this new currency on the Islamic financial system has become a more pressing issue. This research adopts a 'normative research' approach applied to understand, evaluate, and offer recommendations for future actions. A comprehensive analysis of the body of existing literature and a careful review of the secondary data from various sources insights into the nature of cryptocurrency, its Shari'ah compliance, and the potential impact of its adoption in the Islamic financial system.

Keywords: *Cryptocurrency, Shari'ah, Islamic Finance, Medium of Exchange, Fiqh*

INTRODUCTION

Since the birth of its communal life, human beings have been engaged in the use of a substance of value (money) as a unit of pricing and as a means of exchange. This medium of exchange (money/currency) has evolved during the history of man's social and economic life. According to Selcuk and Kaya (2021), throughout history, money has undergone numerous transformations, and now starting to take on a digital form as an innovative solution to the current state of one's personal as well as business concerns. Starting with barter, use of precious metals like silver and gold coins, paper money, digital currency, and now despite its uncertain nature, cryptocurrency is predicted to become a more common medium of exchange in the contemporary world.

The evolution of money from barter to the current digital currency has been critically analysed for Shari'ah (Islamic law) compliance by the religious scholars of each era. Money as a medium of exchange in various forms has never been objected to by scholars except for some structural issues embedded in these money types. For example, in barter, the commodities such as liquor and so were prohibited. Similarly, in gold and silver exchange at a spot and equal in weight were two key principles adopted to avoid usury (riba).

There is a well-established consensus among Islamic jurists that within Islamic commercial jurisprudence (fiqh al muamalat), any innovation is deemed permissible unless proven otherwise. Madjid (2018) outlines four key principles, firstly all forms of worldly matters (muamalat) are generally permissible unless there is evidence to the contrary; secondly, they should promote general benefit; thirdly preventing harm; and finally, upholding fairness. This principle

has been applied in numerous cases involving modern commercial transactions. Consequently, the advent of new technology-based currencies, known as cryptocurrencies, has become one of the most recent developments under scrutiny for Shari'ah compliance. The case is still under judicial consideration and is a subject of significant debate among Shari'ah scholars and within Muslim-majority countries at a macro level.

The emergence of cryptocurrency, or technology-based money, has instigated a substantial debate on whether it complies with Shari'ah and how it will affect the financial and economic sectors, especially in the context of the Islamic financial environment. As a result, in today's high-tech world, the necessity for research into the possible effects of this innovative digital currency on the Islamic financial system has become a more pressing issue. The case of cryptocurrencies in Islamic finance is examined in this study from two main perspectives. It first examines whether it adheres to the Shari'ah rules. Second, it offers a critical evaluation of the functions of cryptocurrencies in Islamic finance. The study's conclusions include suggestions for improvements and structural adjustments to the regulatory structure overseeing cryptocurrencies in the Islamic financial system.

To comprehend, assess, and provide recommendations for future actions regarding cryptocurrencies and their function in the Islamic financial landscape, this study uses a "normative research" approach. A thorough review of the available literature and the analysis of secondary data from various sources insights into the nature of cryptocurrency, its Shari'ah compliance, and the potential impact of its adoption in the Islamic financial system. The literature review is separated into two sections to

examine the study findings. While the first section discusses the relevant literature on the definition, pros and cons, and current status of cryptocurrency, the second section explores the Shar'ah compatibility of cryptocurrency and its potential impact on the Shari'ah compliant economic endeavours. The conclusions and recommendations are based on an extensive literature review.

LITERATURE REVIEW

From the historical development of currency and an Islamic perspective, it is evident that the use of any specific form of currency whether gold, silver, or any other medium is not mandated by religious commandments. Instead, currency is seen as a social convention, determined by what people collectively agree to use as a medium of exchange (Rose, 2015). To guarantee the exchange of products, a variety of resources were utilized as currency, including seeds, salt, seashells, and animal hides. In recent times, due to the advanced application of financial technology, there has been a rapid increase in the acceptability of a digital form of medium of exchange (currency) known as cryptocurrency. Due to its growing acceptability among the masses, it is projected to be a new medium of exchange comparable to conventional currencies. A detailed analysis of the origins of cryptocurrencies reveals that they possess the essential traits of money, such as serving as a means of exchange, a store of value, and gaining the trust of users. Its legal standing is still unclear, though, therefore government approval is necessary to clear up any confusion over Shari'ah compliance and official recognition.

According to Lavere (2019), the trend of investing in cryptocurrencies is still growing despite their extensive price unpredictability, limited liquidity, lack of physical existence, and absence of support from government reserves. Similarly, according to Safarli and Safarli (2024), traditional banks cannot afford to overlook the paradigm shift brought about by the growing acceptance of digital currencies. Exponential technological advancements brought about by cryptocurrencies force established institutions to manage regulatory concerns and embrace innovative solutions. For traditional banking and the expanding cryptocurrency ecosystem to coexist together, this balance must be reached.

Alzubaidi and Abdullah (2017) assert that in modern societies, fiat money lacks intrinsic value and functions solely as a unit of account for commodities. Central banks control its supply through monetary policies to ensure economic stability. Since 1973, paper money

has depended on public trust in the government rather than possessing inherent value, aiming to control inflation and currency devaluation. Nevertheless, fiat money has consistently fallen short as a trustworthy store of value, one of its primary functions. Moreover, a key challenge with cryptocurrency is its lack of clear intrinsic value and physical existence, which are fundamental requirements under Shari'ah law. On the contrary, Abd Rani et al., (2021) claim that as financial technology is generally beneficial for Islamic finance, its integration into the Islamic financial system is strongly advised. Islamic law deals with matters of permanence (al-thawabit) and flexibility (al-mutaghayyarat). This means that innovation and technological advancement that benefit humanity are encouraged as long as the parameters of permanence and flexibility are maintained. Consequently, it is concluded that the question of whether cryptocurrencies are acceptable as money, assets, or both is subject to intense discussion.

Cryptocurrency

According to experts, cryptocurrencies are a peer-to-peer electronic currency that enables payments to be made online between parties without the need for any intermediaries. Mikołajewicz-Woźniak and Scheibe (2015) defined cryptocurrency as a decentralized virtual asset that can be used as a medium of trade, a unit of account, and a store of value. Additionally, it is a digital representation of value that is exchangeable online. It is distinct from fiat currency, commonly referred to as real currency, which is the actual money that makes up a country's legal tender, as well as e-money, which is a digital representation of fiat currency. According to the International Monetary Fund, Crypto assets (CAs) are assets (like currencies or tokens, offerings, and funds) that are privately issued digital representations of value that are cryptographically secured and deployed using distributed ledger technology (DLT). However, it should be noted that there are no universally consistent definitions of crypto assets (CAs).

Cryptocurrency is defined by Bakar and Rosbi (2017) as a virtual currency that functions independently of a central bank and was created using cryptography to regulate the creation of units and validate fund transactions. According to Chiu and Koepl (2022), when a reliable third party is not available, cryptocurrency is utilized as a digital payment method in a distributed network. Despite being a digital currency, cryptocurrencies can be used for comparable purposes to fiat money, including purchasing, selling, and converting fiat money into cryptocurrency (Fang et al., 2022). In addition, Gowda and Chravorty (2021)

state that cryptocurrency, an innovative technological product is a form of virtual or digital currency and a digital representative of value that is issued by private developers and denominated in their unit of account. Any two interested parties can conduct business directly with one another using the cryptocurrency's system, which is based on cryptographic proof rather than trust (Kristoufek, 2013). Similarly, Bakar et. al., (2017) assert that the very purpose of cryptocurrencies is to allow users to transact anonymously, regardless of where they are in the world, without disclosing their identity or the actual source of their income.

Due to its flawless design which provides peer-to-peer and transparent transaction options, people are expected to prefer cryptocurrency over normal banking transactions. However, experts and governing bodies are still unsure and undecided on whether or not to recognize cryptocurrencies as money, despite their quick development and growing market acceptance as a store of value and a medium of exchange. Experts conduct a comprehensive comparison to analyse the role and prospects of cryptocurrency, considering both its usefulness and inherent risks. Table 1 and Table 2 provide a summary of the pros and cons suggested by different studies.

Table 1
The Pros of Cryptocurrencies

Opinion by	Benefits of Cryptocurrency
Bakar and Rosbi (2017) Ng and Griffin (2018) Zubir et. al., (2020) Wang et al., (2018) Gaol et. al., (2022)	The reduced transaction fees make cryptocurrency trading and transactions popular.
Bakar and Rosbi (2017) Zubir et. al., (2020) Abdillah (2023) Wang et al., (2020) Gowda and Chravorty (2021) Rohman (2023) Ng and Griffin (2018)	Cryptocurrency facilitates peer-to-peer transactions without requiring a regulated intermediary.
Abdillah (2023) Safarli and Safarli (2024) Gowda and Chravorty (2021) Selcuk and Kaya (2021)	Cryptocurrency has global usage without geographical restrictions.
Safarli and Safarli (2024) Alzubaidi and Abdullah (2017)	Cryptocurrency's inclusive potential functions as a catalyst, bringing banking services to underbanked and unbanked customers around the world.
Xi et al., (2020) Yilmaz and Hazar (2018) Gaol et al., (2022)	Since cryptocurrency is built on top of robust and secure cryptographic technology, it functions without a single point of failure.
Gowda and Chravorty (2021) Yilmaz and Hazar (2018) Selcuk and Kaya (2021)	Cryptocurrency transaction services are available and operational 24/7.
Yilmaz and Hazar (2018) Gaol et al., (2022) Siddique and Shah (2023) Rohman (2023) Ng and Griffin (2018)	The security and anonymity of cryptocurrency make it more favourable to its users.
Selcuk and Kaya (2021) Gaol et al., (2022)	It removes the constant financial expenses associated with the printing of money by establishing a common currency for global use, which can have a positive impact on commerce, trade, production, and consumption volume.
Hardle et. al., (2020) Selcuk and Kaya (2021)	Cryptocurrency is a self-regulated digital value system that promotes the expansion of online businesses by safely storing and transferring assets without the need for direct trade or wet signatures.
Alzubaidi and Abdullah (2017) Paizin (2021)	Blockchain-based cryptocurrencies hold great potential to transform the entire financial system including Islamic finance.
Rosele et al., (2022)	Cryptocurrencies can take into account the benefits of using a "proof of stake" method, in which users risk their coins to validate transactions, as well as the possibility that it will be a more ecologically friendly choice.
Rosele et al., (2022)	Cryptocurrency users generally face lower risks, as they do not have to face losses due to counterfeiting or inflation that usually occurs with minted currencies.
Ng and Griffin (2018)	Greater integration of cryptocurrency into the system can help to reduce the loss of consumer trust in financial institutions, which has been a major effect of the global financial crisis.
Rosele et al., (2022)	Bitcoin a representative of cryptocurrency) is competitive in its structure when it comes to money generation, whereas traditional currency is monopolistic.

Table 2
The cons of Cryptocurrencies

Opinion by	Drawbacks of Cryptocurrency
Bakar and Rosbi (2017)	Cryptocurrency has no inherent value and only exists in virtual form.
Bakar and Rosbi (2017)	Since Bitcoin (a representative type of cryptocurrency) account holders are unidentified, it is challenging to follow them if suspicious activity takes place. Therefore, cryptocurrency is directly associated with uncertainty (gharar) and can facilitate unlawful activities such as usury and maysir.
Bakar and Rosbi (2017) Gaol et al., (2022) Gowda and Chravorty (2021)	There is a propensity for cryptocurrency's anonymity to encourage involvement in illicit dealings and unlawful online gaming.
Safarli and Safarli (2024) Gowda and Chravorty (2021) Gaol et al., (2022)	The decentralized and pseudonymous nature of cryptocurrencies introduces regulatory challenges, requiring a balance between promoting innovation and guaranteeing adherence to know your customer (KYC) and anti-money laundering laws, which can lead to financial crimes.
Rohman (2023)	Cryptocurrencies are inherently volatile; therefore, existing banking systems must navigate them carefully to avoid systemic hazards.
Ng and Griffin (2018)	Money launderers are increasingly shifting their operations to cyberspace, utilizing electronic money because of limited audit trails.
Ng and Griffin (2018) Gowda and Chravorty (2021) Rosele et al., (2022) Selcuk and Kaya (2021)	Cryptocurrencies are exposed to security vulnerabilities due to hacking threats and technical errors.
Ng and Griffin (2018) Rosele et al., (2022) Selcuk and Kaya (2021)	High power consumption since cryptocurrency blockchains operate on a proof-of-work model that demands substantial electricity, and lower performance due to the need for high-speed internet connectivity which results in greenhouse gas (GHG) releases in addition to more pollution, noise, and other negative impacts on societies living near mining facilities.
Gowda and Chravorty (2021) Rosele et al., (2022) Selcuk and Kaya (2021)	Due to investor dependence on future exchange rate fluctuations, cryptocurrency is still largely unaccepted as a payment method and operates as a speculative asset, which presents problems for foreign exchange controls and could lead to capital outflows, which would be problematic for economies with limited foreign exchange.
Gowda and Chravorty (2021)	The fluctuation in the pricing of several cryptocurrency types over time is proof that they don't pass the value storage test.
Gaol et al., (2022)	Cryptocurrency lacks the physical presence of real money, carries a certain amount of risk for consumers, and may pose a threat to a nation's economy.
Gowda and Chravorty (2021)	To pay using digital currency is feasible but proving that the money belongs to the right income category to be taxed is a difficult task.
Gaol et al., (2022)	Since cryptocurrencies lack a tangible form like cash, they cannot be kept in an e-wallet or bank account.

Shari'ah Viewpoint on Cryptocurrency

Islam is the way of life that Allah, The Creator, has prescribed for humanity since the beginning of time. While a significant portion of human activities are allowed to adjust to new developments, Islam has provided some basic guidelines for people's economic pursuits. All human transactional activities were endorsed by Islam except for those which violate the fundamental laws. Since technology is neither inherently Islamic nor un-Islamic, its permissibility is not the point of concern. Instead, the emphasis should be on how it is applied, which may go against the fundamental principles of Maqasid al-Shari'ah and either serve or undermine the public interest. Likewise, Alzubaidi and Abdullah (2017) contend that while the digital currency has the potential for development, it must be evaluated to determine whether it can fulfil the objectives of Islamic Law i.e., Maqasid al-Shari'ah. In

this context, cryptocurrency, a technology-based virtual currency, is under review for its Shari'ah permissibility while adhering to the Maqasid al-Shariah.

Three different perspectives among Shari'ah scholars can be used to differentiate the components of cryptocurrencies that comply with Shari'ah. The first is that cryptocurrencies' inherent features are entirely permissible because they do not contravene any Shari'ah laws. The second set of academics holds the opposite view and believes that cryptocurrencies should be outlawed entirely since they are in direct opposition to Shariah laws. However, according to the third group of Shariah experts, cryptocurrencies in their current state have certain problems that, if fixed, might make them both a valuable asset and a significant medium of exchange. Table 3 provides the summary of different fatawa/opinions forwarded by the eminent scholars.

Table 3
Summary of Fatawa/opinions on the validity of Cryptocurrencies from Islamic Perspective

Fatwa/Opinion Issued by	Verdict	Reasons of Verdict
Khan (2023) Madyatmadja et al., (2021) Mohamed and Ali (2021) Pati et al., (2021) Siddique and Shah (2023) Rosele et al., (2022) Bakar and Rosbi (2017) Bakar et al., (2017)	Impermissible (Haram)	<ul style="list-style-type: none"> • Cryptocurrency does not fulfil the requirements of a medium of exchange. It is not legal tender and, thus cannot be recognized as currency. • Without the support of fiat money or precious metals like gold, cryptocurrency is intangible and uncertain. • Cryptocurrency can facilitate illegal activities like money laundering and fraud. • Its trading resembles betting (maysir). • Cryptocurrency is not a legally traded digital commodity or asset. • It is highly volatile. • Its existence is ambiguous. • States do not accept cryptocurrencies as payment. • Cryptocurrencies are illegal since they are not governed by the government (not legal tender). • The intrinsic value of cryptocurrency is impossible which introduces an element of gharar. • It contains an element of harm (dharar). • Cryptocurrencies do not comply with the objectives of the Shari'ah (maqasid al-Shari'ah). • Cryptocurrencies are prohibited because they lack legal tender, their issuer is unknown, and decentralized, price volatility, and potential for illegal use. • It lacks intrinsic value. • It has anonymous ownership. • It is inherently unstable and high-risks • Potential for fraud • It has an ambiguous nature • Its value is speculative, fluctuating based on market perception rather than tangible backing. • They are not monitored or audited by the state. • Bitcoin mining is likened to gambling. • Excessive uncertainty and financial risks
Yussof and Al-Harthy (2018) Bakar and Rosbi (2017) Rohman (2023)	Permissible (Mubah)	<ul style="list-style-type: none"> • Cryptocurrencies serve as a store of value as well as a method of exchange. • They are permissible based on the principles of Istishab. • Features of cryptocurrencies are compatible with Shari'ah. • Since other currencies, like gold and silver, are also subject to speculation and are not illegal, cryptocurrencies will not be made illegal if they do. • Because of its apparent use and ease of use, it complies with Shari'ah. • Compared to existing fiat currency, cryptocurrencies have a higher chance of achieving Shari'ah goals (Maqasid-al-Shari'ah) since there is no uncertainty or inflation. • Bitcoin is legal since it functions similarly to a ju'alah contract. • They are consistent with the Islamic value of social justice. • Cryptocurrencies satisfy the principles of maal (property), manfa'ah (usufruct), haqq (rights), and dayan (responsibility), as are the usual conditions of exchange transactions. • Digital currencies have gained acceptance through established social practice. • Bitcoin can be classified as maal (property/assets)
Alzubaidi and Abdullah (2017) Siddique and Shah (2023) Bakar and Rosbi (2017)	Permissible under certain conditions	<ul style="list-style-type: none"> • Cryptocurrencies will be considered acceptable if they adhere to Maqasid-al-Shari'ah. • With proper (state) control, digital currencies could serve as a viable alternative and be compatible with Islamic teachings. • Cryptocurrencies will be allowed as long as transactions are clear, there is little room for doubt, and there are no usury (riba) components present. They must also be transparent, equitable, and compliant with all applicable laws. • Cryptocurrency can be considered legitimate if it satisfies the following conditions: (a) it must be issued using pre-deposited monies; (b) it must be electronically maintained in a registered medium; and (c) the issuer's managed funds must not be utilized as bank deposits and must only be used for merchant payments. • If risks were mitigated and a reliable authority-regulated cryptocurrency, its use could become permissible under Islamic law. • Following a scholar's declaration of permissibility indicates an alignment with the view that cryptocurrencies can be used in ways that comply with Islamic principles, at least in the context of charitable giving. • Cryptocurrencies are permissible under Shari'ah law if certain conditions are met: the intended use of the cryptocurrency must be permissible, it must function as a store of value, and it must act as a means of exchange.

Consequently, a thorough analysis of earlier research leads to the conclusion that scholars have discussed cryptocurrencies extensively from a Shari'ah perspective. As a result, there are differing opinions among Islamic scholars regarding the Shari'ah compliance of cryptocurrencies. Following the theoretical framework for cryptocurrency adoption, the Dubai-based technology company OneGram, in partnership with GoldGuard launched the first gold-backed digital currency that adheres to the Shari'ah principles in May 2017. Like Bitcoin, OneGram was developed using blockchain technology, however, each coin was backed by one gram of gold stored in a vault, providing tangible value in line with Islamic financial rules that prohibit speculation and the use of assets without intrinsic value. A key feature of OneGram is its

stability, as it is tied to the price of gold, a minimum price equivalent to that of one gram of gold. Nevertheless, its market vulnerability has been evident, with its highest recorded price reaching \$464.73 on January 16, 2019, and its lowest price falling to \$0.0006 on September 13, 2022.

Other Shari'ah compliant cryptocurrencies include Bayan Token, NoorCoin, ADAB, and Stellar. A critical analysis of these innovative Shari'ah compliant cryptocurrencies has been performed by Aliyu et al. (2020). Their analysis is based on four fundamental elements of Shari'ah permissibility that include approval from the Shari'ah regulatory authority, the know-your-customer (KYC) approach, asset backing, and gharar (uncertainty). Their findings are summarized in Table 4.

Table 4
A Comparative Analysis of Cryptocurrencies in the Context of Shari'ah-Compliance

Shari'ah Prerequisite	Type of Cryptocurrency				
	OneGram	NoorCoin	Bayan Token	ADAB	Stellar
Approval from Shari'ah Regulatory Authority	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	None	None	None	None
Know Your Customer (KYC)	All participating entities are known because they are properly registered; nonetheless, it is unclear how non-halal industries are taken into account.	There is no explicit mention of the non-halal industry's prohibition.	There is no explicit mention of the non-halal industry's prohibition.	The unlawful entities are taken into account in the structuring of ADAB	There is no explicit mention of the non-halal industry's prohibition.
Excessive Uncertainty (Gharar)	Since it is backed by gold, there is less price volatility. Consequently, there is less speculation than with other cryptocurrencies.	Price volatility is moderate because it is supported by a smart contract. However, it is not an asset-backed investment; hence, it does not fully adhere to the Shari'ah rulings.	It has inherent worth and is supported by material assets. Since there is a chance of data loss, the dependability may not be assured, and the entire token may be impacted.	This cryptocurrency type is exposed to excessive uncertainty because it is not asset-backed.	This cryptocurrency type is exposed to excessive uncertainty because it is not asset-backed.
Backed by Tangible Asset	Backed by Gold	It is not backed by any tangible asset.	It is supported by a cloud server service that is exclusively available in a specific area.	It is not backed by any tangible asset.	It is not backed by any tangible asset.

Source: Aliyu et al., (2020)

Based on the above analysis, it can be concluded that only OneGram complies with Shari'ah rulings in their entirety, both in law and spirit, whereas other types adhere to specific guidelines, yet they lack Shari'ah compliance to a satisfactory level.

Authors' Perspective Derived from Literature Review

Following a comprehensive examination of the cryptocurrency landscape, it is evident that adopting cryptocurrencies has both positive and negative features, as well as components that are both Shari'ah compliant and non-compliant in its structure. Therefore, appropriate investigation is essential to

make decisions on the utilization of this innovative technology-based virtual asset. In addition to following Shari'ah principles, individuals and business firms that deal in cryptocurrencies must weigh both aspects cautiously since they need to be careful in their investment decisions.

Without mentioning a specific form, Imam Ibn Hazm (994–1064 CE, a prominent Andalusian Muslim scholar, theologian, historian, and jurist) asserts that anything that may be exchanged can be bought, sold, and used as a medium of exchange or a measure of worth without specifying a particular form. However, he contends that gold or silver should ideally be used as the medium of trade. Ibn Taimiyah (1263–1328 CE, prominent Islamic

scholar, theologian, jurist, and reformer of the medieval period) however, argues that since currency (dinars and dirhams) is based on the agreements and practices of its users, there are no set limits on its quantity or composition. Furthermore, some academics contend that money can be anything that both parties agree upon, regardless of whether it is composed of stone or wood. Therefore, it may be claimed that money, whether it be fiat currency, e-money, digital currency, such as cryptocurrencies, or material currency, is a means of exchange. Consequently, it is evident from the historical background of currency that when used as a medium of exchange it must have two fundamental characteristics: 1) accepted among the masses because of its intrinsic value, and 2) regulated or guaranteed by the state. Therefore, it is endorsed that without the state authorities' approval of its acceptance as a medium of exchange (currency), it should be avoided which is also very much evident from the Quran in these words, "O you who have believed, obey Allah and obey the Messenger and those in authority among you. And if you disagree over anything, refer it to Allah and the Messenger if you believe in Allah and the Last Day. That is the best [way] and best in result." (An-Nisa 4:59)

One of the Shari'ah aspects of cryptocurrency is that it can be regarded as property (mal) but not as a form of monetary value (thamaniyyah). The market history of this virtual money makes it clear that dealing is extremely vulnerable if it is utilized as property. Therefore, to prevent any misappropriation, it is advised that traders exercise greater caution, especially if they lack technical expertise. The reason for this is that the Shari'ah forbids taking unnecessary risks that could result in gharar or qamar.

Bitcoin's volatility may decline as it becomes more popular and matures in the market. For the same reasons, it is recommended that only the less dangerous and susceptible varieties of cryptocurrencies be used until the market is sufficiently mature to handle such weaknesses. Dahlan (2025) strongly advocates asserting efforts directed to develop cryptocurrencies that comply with the Shari'ah rulings are backed by tangible assets such as gold and silver and are equipped with controls to prevent speculation and ensure transparency. This recommendation is highly supported in terms of innovative Shari'ah compliant digital currency, as one of the fundamental requirements for any currency type to serve as a medium of exchange is its backing by tangible assets such as gold, silver, and other valuables, along with ensuring transparency of its recognition.

Payment instruments have undergone substantial

modifications as a result of technological advancements, and all electronic transactions today offer ease, flexibility, efficiency, and security (Anti & Adinugraha, 2023). Therefore, in regions where the government has authorized their usage, it is advised that financial institutions employ cryptocurrencies to benefit from all of them. Bergstra (2015) and other specialists in this discipline contend that an informational commodity that resembles Bitcoin in terms of money could be a useful tool for the advancement of Islamic banking. They contend that the perceived value of Bitcoin for Islamic finance will determine its likelihood of becoming an uncontested informational currency. Therefore, it is strongly recommended that specialists in finance and Shari'ah work together and take the initiative to discover innovative, workable solutions to the issues posed by Muslim investors' and Islamic financial institutions' adoption of cryptocurrencies.

Adopting cryptocurrencies as a means of exchange in many developing as well as underdeveloped countries is a great challenge due to numerous factors and limitations in these countries such as inadequate power generation, unstable and inefficient stock markets and financial sectors, and most importantly, a high rate of illiteracy. Therefore, these issues should be fixed before adopting this high-tech financial tool. Although adopting this virtual currency can benefit developing nations like Pakistan in terms of increased trade and finance, authorities must carefully craft its rules and regulations while taking into account all facets of its financial and economic effects at the local and global levels.

CONCLUSION

The widespread adoption of technology, particularly fintech, by the Islamic financial industry has prompted a need to investigate not only the Shariah-related issues regarding cryptocurrency but also its financial impact on the Islamic financial environment. A comprehensive overview of the past literature and the viewpoints of numerous Shariah experts, it can be concluded that cryptocurrencies might be regarded as permissible, provided certain conditions are satisfied. One of the most important prerequisites, as determined by previous research, is that cryptocurrency must be supported and regulated by a central authority. Nevertheless, instead of completely replacing fiat money, it can serve as an additional form of currency. Another Shari'ah standpoint on cryptocurrencies is that they can be regarded as property (mal) but not as a form of monetary value (thamaniyyah).

Based on the comprehensive analysis of

cryptocurrency's environment, Selcuk and Kaya (2021) recommend that Islamic scholars refrain from issuing general and superficial fatawa against cryptocurrencies; instead, they should not prevent Muslims from utilizing emerging technologies. If certain obstacles exist to the adoption of any novel product or service, scholars should collaborate with financial experts to resolve them and guarantee that Muslims benefit from these innovative tools. Additionally, they contend that cryptocurrencies adhere to Islamic law need to serve society, and cannot contain elements that violate it. Furthermore, they propose that Islamic countries collaborate to create cryptocurrencies that completely adhere to the Shari'ah laws (halal cryptocurrencies) and they would enable them to support each other in borrowing and trading activities.

Analyzing the current scenario, Siddique and Shah (2023) suggest that the Islamic financial system adopts cryptocurrencies gradually. To make the cryptocurrency Shari'ah compliant, the first step is to make sure it is supported by a physical asset. The government's accreditation is the second prerequisite. Lastly, increasing public awareness is the third phase, which makes it possible for people to start utilizing it as money.

Competing Interest

The authors had no competing interests.

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