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Hanafi Jurisprudence and Crypto currency: Comparative Analysis

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Abstract

This study examines how classical Hanafi Islamic law on money, trade, and riba (usury) relates to modern crypto currencies. It first outlines Hanafi principles regarding what constitutes valid currency and permissible sales transactions, noting especially the requirement of hand-to-hand exchange and prohibition of gharar (excessive uncertainty) and qumar (gambling) in trade. We then describe key features of crypto currency and block chain (digital, decentralized currencies and smart contracts) and their contemporary uses (remittances, decentralized finance, peer-to-peer exchanges). In comparing these, we identify potential compatibilities (e.g. crypto currency as community-accepted medium) and conflicts (e.g. volatility and lack of intrinsic value) with Hanafifiqh. For example, Hanafi sources emphasize that lawful money must be **valued and storable**, and only gold/silver are riba items. By contrast, crypto currencies have no fixed intrinsic backing and can fluctuate wildly. Many contemporary Hanafi scholars therefore caution that crypto currencies may involve riba (through delayed unequal exchange) and gharar (through speculation). This paper also discusses implications for Muslim communities using crypto-based remittances: how Hanafi rulings might limit the use of volatile crypto currencies, and how certain designs (e.g. asset-backing or immediate settlement) could address Shariah concerns. Throughout, we cite classical texts (e.g. *Al-Hidāya*, *Fatāwá-i-ʿĀlamgīri*) and modern Islamic finance literature to frame the analysis.

Introduction

Over recent decades, **money and trade have transformed**, from physical gold and silver to fiat currencies and now to block chain-based digital assets. Crypto currencies like Bit coin, launched in 2009, operate without a central authority and have found use in cross-border payments and remittances. As their popularity grew – the crypto market exceeded $3 trillion in early 2025 – Muslim scholars began debating whether such digital assets can be used under Sharīʿa. The Hanafischool, dominant across South Asia and influential globally, has rich jurisprudence on money (*mal*), trade, and usury. Its classical texts (e.g. al-Marghinānī's*Al-Hidāyah*, the Ottoman codification *Fatāwá-i-ʿĀlamgīri*) set forth criteria for valid currency and fair exchange. This paper reviews those Hanafi principles and compares them to the features of modern crypto currency practice (remittances, decentralized finance, smart contracts, peer-to-peer exchange). In doing so, we identify **areas of alignment** – such as community acceptance as money – and

points of tension – such as excessive uncertainty – between Hanafifiqh and block chain assets. We also explore what Hanafi rulings imply for Muslim communities using crypto for remittances, given the potential benefits and risks in cross-border payments. Our analysis relies on both primary classical fiqh sources and contemporary Islamic finance scholarship (including Hanafi fatwas and research on crypto), aiming to provide a balanced, scholarly assessment for an academic readership.

The Conditions of "Thaman" (Price) According to Hanafi Jurists and Their Application to Virtual Currencies

According to Hanafi jurists, it is not a requirement in a sale transaction that the price must necessarily be "thaman" (the traditionally recognized medium of exchange). Therefore, something other than a recognized currency may also be given as a price. However, there are additional conditions for a commodity to be accepted as a valid price, which are mentioned in the books of fiqh (Islamic jurisprudence). Below, we list these conditions and examine whether digital currencies fulfill them or not:

First Condition: The Price Must Be a Legally Recognized Property (MālMutaqawwam)

For a sale to be valid, the thaman must be "mālmutaqawwam." AllamaIbnAbidin defines "māl" (property) as:

"المراد بالمال ما يميل إليه الطبع ويمكن اذخاره لوقت الحاجة، والمالية تثبت بتمول الناس كافة أو بعضهم والتقوم يثبت بها وبإباحة الانتفاع به شرعا"[1]

"What is naturally desired and can be stored for future needs. Its financial value is established when people generally or partially treat it as wealth, and it becomes legally recognized when its use is permissible in Shariah."

This definition clarifies that "māl" is what people regard as wealth. For a valid sale, the price must be such a recognized wealth — that is, it must be usable and its use must be permissible in Islamic law.

Second Condition: The Price Must Be Known

For a sale to be valid, the type and quantity of the price must be known.[2] The type of virtual currencies (e.g., Bitcoin, Ether, Ripple, etc.) can indeed be identified, and the quantity can also be specified in the contract. If the type or quantity is left ambiguous, the contract becomes flawed. In themselves, these currencies have the capacity to be identified.

Third Condition: The Price Must Be Owned by the Buyer and Be Deliverable

If the thaman is a specific item, then the buyer must own it at the time of the sale. Likewise, it must be possible for the buyer to deliver it to the seller. However, if the thaman is cash, it is not

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identified by physical presence but becomes a liability on the buyer. Allama Ali HaidarAfandi writes:

"لا يتعين الثمن بالتعيين في العقد والمقصود من الثمن النقد سواءأكان مضروبا أم غير مضروب أما الذهب والفضة اللذين داخلتهما الصنعة وقارنتهما الصياغة بحيث يكون ما فيهما من الصنعة مقصودا كالقلادة والمنطقة من الذهب والفضة فيتعين الثمن منهما بالتعين كماإذا كان من المثليات ما عدا النقد فإنه يتعين أيضا بالتعيين (حاشية الدر)"[3]

"The price does not become determined merely by specification in the contract. The real intent of thaman is cash, whether minted or unminted. Gold and silver that are crafted into items such that the craftsmanship becomes the primary value — like necklaces and belts — then they become specified as thaman upon designation. Likewise, fungible items (other than currency) also become specified by designation." (Hashiyat al-Durr)

Fourth Condition: General Circulation and Public Acceptance

In the terminology of jurists, circulation means that money should move in the hands of many people by legal right.[4] In *Al-Mudawwanah*, it is stated:

"قالَ لي مالِكٌ في الفُلوسِ: لا خَيْرَ فيها نَظْرَةً بِالذَّهَبِ وَلا بِالْوَرِقِ، وَلَوْ أَنَّ النّاسَ أَجازُوا بَيْنَهُمُ الجُلُودَ حَتّى تَكونَ لَها سِكَّةٌ وَعَيْنٌ لَكَرِهْتُها أَنْ تُباعَ بِالذَّهَبِ وَالْوَرِقِ نَظْرَةً"[5]

"Malik said to me about fulus (copper coins): 'There is no good in them when exchanged on credit for gold or silver. Even if people made skins circulate between them to the extent that they had official minting and value, I would still dislike selling them on credit for gold or silver."[6]

This shows that the criterion of being recognized as money is based on public approval and consensus, not solely on being made of gold or silver. Even if animal hides were commonly used in trade and had a fixed value and coin-like status, they would also be subject to the rulings of financial transactions.[7]

It is stated in *FatawaFiqhiyyah Kubra*:

"ومن ثم لو راجت الفلوس رواج النقود ثبت لها أحكامها"[8]

"Therefore, if fulus gain the same circulation as established currencies, the same rulings will apply to them."

If we examine this condition in relation to virtual currencies, it becomes apparent that their use is still very limited and they do not enjoy widespread circulation like other currencies. In common usage, they are not recognized as money because people are generally accustomed to trusting only state-issued currencies. In some countries, their use is considered illegal and punishable,

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though others allow their use without formally recognizing them. One of the conditions of "urf" (common custom) is consistency, and the differing stances of various countries on virtual currencies indicate a lack of consistent custom. Therefore, virtual currencies do not fulfill the condition of general circulation and acceptance.

Fifth Condition: Relative Stability and Value Consistency

This condition is important to preserve the above-mentioned attributes of thaman. Constant fluctuation in value makes a currency unreliable, affecting its purchasing power. When we examine virtual currencies under this condition, it has already been established that their value fluctuates excessively, making it difficult to adopt them as stable currencies.

Sixth Condition: Issuance by the State

In Islam, the issuance of money is a governmental function carried out by the state under specific Shariah regulations:

1. **First Principle: The Responsibility of Issuance Lies with the State**
   This ensures that the issuance of money is a just process — especially when the currency is not made of gold or silver, as these materials inherently possess intrinsic value. The right to issue currency lies solely with the ruler (Imam) and cannot be delegated, due to the risk of fraud.
2. **Second Principle: Relative Stability and Value Consistency**
   As previously explained, value stability is essential to treat money as a reliable financial medium.
3. **Third Principle: Money Should Not Be Issued for Profit**
   Issuing currency as a form of trade leads to injustice and deceit. IbnTaymiyyah wrote:

   "ولا يتخر ذو السلطان في القلوس أصلا؛ بأن يشتري نحاسا فيضربه فيتجر فيه ولا بأن يحرم عليهم الفلوس التي بأيديهم ويضرب لهم غيرها، بل يضرب ما يضرب بقيمته من غير ربح فيه؛ للمصلحة العامة ويعطي أجرة الصناع من بيت المال. فإن التجارة فيها باب عظيم من أبواب ظلم الناس وأكل أموالهم بالباطل"[9]

   "The ruler must not engage in trade through coins — by buying copper, minting it, and profiting from it; nor by banning the coins people currently possess and minting new ones. Rather, he should mint coins based on fair value without profit, for public welfare, and pay the artisans from the public treasury. Trade in this manner opens the door to major injustice and wrongful consumption of people's wealth."

When these principles are evaluated against virtual currencies, it becomes evident that none of them are fulfilled:

- **First:** Their origin is unknown, which increases the risk of fraud and loss.
- **Second:** Their value fluctuates so significantly that it is difficult to control.
- **Third:** They are primarily used for speculation and profit rather than for the exchange of goods and services.

- These principles have guided Hanafi jurists through historical changes in money (from dirhams to banknotes). Hanafifiqh traditionally treats paper notes and foreign currency through analogy: if they are widely accepted "and there is no riba involved," trading them is permitted as *bayʿ al-mal* (sale of money). Overall, the core Hanafi view is that money itself is a non-productive medium: profit must come from trade of real goods or services, not from creating value by lending or speculation on the money. With this baseline, we now turn to modern digital currencies.

Crypto currency: Features and Use Cases

Crypto currencies are electronic, decentralized financial instruments. Technically, a crypto currency is a digital token recorded on a block chain, which is a **distributed ledger** updated by network participants (miners or validators). Each transaction is cryptographically verified and added in "blocks" to the chain, ensuring security and preventing double-spending. Notable features of major crypto currencies include:

- **Decentralization:** No single central bank or government issues or backs the currency. Instead, consensus algorithms (e.g. Proof-of-Work or Proof-of-Stake) determine issuance and transaction validation.
- **Digital Nature:** Crypto currencies exist only as entries on computers, wallets or block chains; they have no physical form. They rely on cryptography to secure ownership (via private keys) and transfer rights.
- **Volatility and Speculation:** Unlike stable coins or fiat pegged assets, most popular crypto (e.g. Bit coin, Ethereum) has market-determined values. Their prices can swing sharply, driven by supply, demand, and market sentiment. Many holders seek appreciation.
- **Programmable Contracts:** "Smart contracts" are code on block chains that automatically execute when conditions are met. They enable trustless agreements (such as automatic escrow in a sale, or payouts in a DeFi (decentralized finance) lending protocol).

These modern constructs have led to innovative uses. **Cross-border remittances** are a key application. Traditional remittance channels can be slow and costly (high fees, multiple currency conversions). Crypto currencies promise faster, cheaper transfers: for example, platforms like BitPesa (now AZA Finance) allow users in Kenya to send and receive funds via Bit coin and on-chain transfers. Empirical studies note that crypto adoption is positively correlated with high remittance economies – in low-income and developing countries a rise in crypto use often coincides with higher remittance inflows. Researchers argue that crypto currencies "can address many problems related to cross-border payments", though regulatory issues and volatility remain concerns.

Decentralized Finance (DeFi) is another recent trend. DeFi platforms use smart contracts to provide financial services (loans, savings, insurance) without traditional banks. For instance, one can deposit crypto into a "liquidity pool" and earn yield, or borrow crypto by posting collateral. These yields may resemble interest, but proponents frame them as profit-share or fees. The lack of central governance means terms are enforced by code, and participants assume algorithmic risk.

Smart contracts more broadly can replicate classical contracts: e.g. an automated Murābaḥah (cost-plus sale) contract could theoretically be encoded so that payment triggers transfer. In essence, smart contracts are neutral tools; their Islamic permissibility depends on whether their *substance* (underlying contract and asset) meets Sharīʿah conditions.

Finally, **peer-to-peer (P2P) exchanges** allow individuals to trade crypto directly, often using escrow or smart contracts. This is conceptually similar to face-to-face currency exchange or barter, but online. P2P trading can include swaps between crypto assets or between crypto and fiat currencies, sometimes crossing national borders without intermediaries.

In sum, the crypto ecosystem offers new forms of money and contracts that differ significantly from classical currency. They are global, digital, and often uncoupled from physical commodities or state guarantees. While these innovations create opportunities (e.g. cheaper remittances, financial inclusion), they also raise legal and ethical questions when viewed through the lens of Hanafifiqh. The next section analyzes areas of compatibility and conflict between these Shariah principles and blockchain-based assets.

Analysis: HanafiFiqh vs. Crypto currencies

Medium of Exchange and Money Hood

A fundamental question is whether crypto currencies qualify as *mal* (property or money) under Hanafi law. Classical Hanafi thought demands that currency be an accepted medium, valued by society, and storable. One modern interpretation notes that according to Hanafi jurists, "the two criteria of currency … are desirability and the possibility of storage". In practice, gold and silver naturally met these criteria for centuries. By analogy, some jurists have recognized widely used coins (even paper money) as currency, despite lacking intrinsic metal content, precisely because people agreed to accept them as payment.

Crypto currencies challenge this framework. They are intangible and, in most cases, **not universally accepted**. Hanafi doctrine typically requires a currency to be "normally desired" and exchangeable for goods. While crypto can be exchanged for goods or fiat through platforms, most people do not treat, say, Bit coin as their primary medium of exchange. In Hanafi terms, Bit coin's **tāmawwul** (social acceptance) remains limited. If a currency is not generally used or recognized, its status as money is doubtful. Hanafi precedent (discussing early banknotes) suggests that paper currency only inherits the rulings of gold/silver when truly viewed as money by people. Today, authorities like the UAE's fatwa council have explicitly stated that crypto currencies "are not accepted by states as money" and therefore are impermissible as currency.

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Another concern is **stability and intrinsic value**. By Hanafi logic, fiat currency (paper money) was tolerated because it was backed by state guarantees and gold reserves; its value had some anchor. Crypto currencies, however, lack any inherent utility or backing by tangible assets. Hanafi thinkers caution against accepting something "without real value," noting that early experiments (like the 1971 fiat detachment from gold) introduced harm. One recent Hanafi fatwa analogizes crypto currency to unbaked fiat and finds it illicit because it has "no necessity" and leads to speculative "creating money from nothing". Moreover, the volatile nature of crypto – dramatic booms and crashes – introduces gharar into its very definition. Chief Mufti Allam of Egypt remarks that Bit coin's features "lead to gharar (uncertainty) and *jahala* (ignorance)", yielding unfair gains; thus he concludes such tools are not permissibl. Similarly, Saudi scholar al-Mutlaq observes that crypto currencies' meteoric value swings resemble gambling, and calls their unrestricted use "not licit in terms of fiqh".

From a Hanafi perspective, a valid currency should not itself be a source of *gharar*. The Prophet's hadith about gold-for-gold indicates that when exchanging money, equality and immediacy are required to avoid uncertainty in value. Crypto exchanges often happen through digital trading with no guarantee of equal value. For example, if one trades 1 Bit coin for 30,000 USD and agrees to receive it later (non-hand-to-hand), this would violate the gold/silver rule. Even exchanging crypto for fiat instantly can be contentious if the crypto isn't state-backed. The Hanafi emphasis on immediate delivery is encapsulated in the contemporary fatwa: "trading transactions must take place immediately because of the monetary feature of crypto currency… in this case, [if] transaction density [slows]… crypto currency is not permitted". This underscores that if crypto is treated as money, its exchange must meet the same conditions as any currency trade – something difficult in decentralized networks.

Commercial Transactions and Contracts

Hanafi contract law offers various forms (bayʿ, murābaḥah, salam, etc.) with strict conditions. Can block chain smart contracts meet these conditions? In principle, a smart contract is simply an automated execution of agreed terms. If parties explicitly stipulate exchange of some asset for crypto currency, and the network enforces it without deception, the formality is present. There is nothing inherently sinful about using code to implement a sale or loan **per se**. However, the **substance** of the contract must comply with Sharīʿah. For example, issuing a new crypto currency as an asset-backed stable coin (where tokens represent ownership of tangible goods) might parallel a valid sale contract, provided transparency and fairness. Conversely, launching coins to fund gambling, or promising guaranteed profit rates, would violate clear Sharīʿah injunctions.

Consider DeFi lending as a contract: if a user lends crypto and expects a fixed percentage return, many Hanafi scholars view this as *qardbiyiḍʻah* (a loan for interest), which is prohibited ribā. Unless the arrangement is structured as a profit-and-loss-sharing (akin to *muḍārabah*) or a service fee, it resembles forbidden interest. No well-known Hanafi authority has declared generic DeFi staking halal; indeed, the absence of tangible asset generation raises concerns. Some analysts warn that any guaranteed "staking reward" is essentially riba by another name, because it is an unconditional yield on money lent.

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Similarly, trading crypto on margin or futures platforms can involve extreme gharar. Many crypto derivatives are highly leveraged bets on price movement, more akin to gambling than commerce. Hanafi doctrine disallows excessive uncertainty (*ghararfaḍīḥ*) and outright games of chance (*qumar*). As Selçuk& Kaya observe, Islamic scholars classify "crypto currencies which are issued for gambling… as certainly not halal". By extension, using crypto currencies for speculation or money games is universally deemed impermissible in Hanafi sources (and indeed by our juristic consensus).

On the other hand, everyday uses – such as paying for goods, services, or charitable contributions via crypto – may be more straightforward. If the crypto is stable and the exchange immediate, a merchant could accept it just as they would accept foreign currency. In fact, Seekers Guidance (Hanafi) permits exchanging one currency for another even with a profit margin, so long as the currencies are different and payment is immediate. By analogy, one might view buying a portion of crypto currency and immediately giving it to another party as akin to currency exchange. In practice, however, complexity arises: trust in the exchange mechanism and valuation must be high. The Hanafi emphasis on certainty means that any transaction on an open crypto market must be treated with caution unless the parties are fully aware and consenting.

Remittances and Community Impact

For many Muslim communities, especially in the developing world, remittances are a vital lifeline. Block chain advocates argue that crypto currencies could reduce remittance costs and improve speed, potentially benefiting senders and recipients. Indeed, market studies show a correlation between crypto use and remittance flows: areas with high remittance reliance often see more peer-to-peer crypto trading. Platforms like BitPesa demonstrate that, in practice, crypto currency can cross borders more freely than regulated channels.

However, from a Hanafi standpoint, **the permissibility of using crypto for remittances depends on following Shariah norms**. If a Muslim migrant wishes to send support home via crypto, they must consider the Islamic status of the tools. Suppose they use a regulated, asset-backed digital currency (not speculative), and the transaction is immediate and transparent. In that case, there is an argument (based on the principle of general permissibility) that such a transfer could be allowed, as no clear Sharīʿah prohibition is violated. The Fatwa Centre notes that contemporary scholars are divided, with some suggesting crypto's permissibility if carefully structured. Thus, a Hanafi-informed analysis would encourage ensuring the crypto is not used for unlawful ends, that fees are not extortionate (avoiding *gharar* by hidden costs), and that any gain for the sender is not from interest.

On the contrary, if a community uses highly speculative crypto, the Hanafi ruling would lean negative. As one Hanafi mufti bluntly stated, trading in bit coins "does not involve any actual buying and selling" under Sharīʿī conditions and instead amounts to a form of gambling and fraud. Under such a view, a remittance sent via Bit coin could inadvertently become tainted by this forbidden speculation. Additionally, if local authorities have not legalized crypto, using it might conflict with the Hanafi principle of obeying just state regulations (Taqīyah principle). The

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UAE and Saudi fatwas, for example, discourage crypto currencies partly due to regulatory uncertainty tujhse.

In summary, for remittances, Hanafi law implies: only engage if the crypto transactions fully meet Sharīʿah conditions (legitimate sale/exchange, immediate transfer, no riba or gharar). Otherwise, conventional means (bank transfers, cash hawala) remain safer. Communities should seek guidance: if major Hanafi authorities issue a clear prohibition, then Muslims should refrain from crypto remittances. But if structured explicitly as currency exchange (currency-to-currency *bayʿ*) and conducted transparently, some scholars suggest there may be room for permissibility islam. The issue remains unsettled, making it imperative for those involved in crypto remittances to consult knowledgeable Hanafi scholars.

Discussion and Conclusion

This review has juxtaposed Hanafifiqh's foundational rules with the realities of block chain money. **Compatibility** exists insofar as crypto can function as a medium that people agree to use (the **tamawwul** condition). If a digital currency is widely accepted in a community, one could argue it meets the objective of a usable currency. The transparency and decentralization of blockchain even align with Sharīʿa values of avoiding centralized manipulation. Smart contracts, being self-enforcing, could theoretically automate rightful transactions like *murābaḥah* or *ijārah*, potentially reducing disputes. Additionally, for impoverished or unbanked Muslims, crypto offers financial inclusion – an ethical goal of Islam ("serving maslahah" or public interest) – by facilitating secure transfers without fees.

However, significant **conflicts** remain between typical crypto currency practices and Hanafi doctrine. Most crypto currencies fail the *desirability-and-storage* test in Hanafi eyes: they lack intrinsic worth and stability. Their dependence on purely speculative market confidence means they are prone to *gharar*. The Hanafi ban on interest (riba) also poses a problem: earning money by lending crypto at interest, or even by staking for fixed rewards, closely resembles forbidden *riba*. As Selçuk& Kaya note, major Islamic scholars like Kahf and Qaradaghi explicitly ruled crypto haram because it is not state-issued and cannot function as money under Sharīʿah. ShaykhKaraman similarly emphasizes that unjustified gains from crypto violate Islamic ethics. In practice, many crypto platforms operate in ways that contravene classical conditions (e.g. exchanges run 24/7 without central control, often enabling interest-like products).

For Hanafi communities, these findings imply caution. On one hand, refusing to use crypto altogether could mean missing out on innovations in remittances and finance; on the other hand, unqualified adoption risks contravening Sharīʿah rules and supporting dubious speculation. A prudent Hanafi approach would be to distinguish **assets** and **activities**: it might be permissible to hold or trade a purely stable crypto-asset (especially if backed by real goods or used as actual currency), while strictly prohibiting gambling-like behaviors, interest-yield schemes, or transactions lacking real exchange. Some Islamic finance experts advocate creating truly Shariah-compliant digital currencies (so-called *halal tokens*) that meet Hanafi criteria – for example, assets fully backed by gold or used exclusively for lawful trade. If such innovations emerge, a revision of past fatwas might be warranted.

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In conclusion, Hanafi jurisprudence provides clear criteria on money, contracts, and prohibition of riba/gharar that present serious challenges to most current cryptocurrency models. While there is no absolute consensus, the weight of Hanafi scholarship leans toward caution or prohibition for typical unbacked, highly speculative crypto. Muslim individuals and institutions engaging with digital assets should heed these principles: they must ensure any crypto transaction truly resembles a lawful sale or exchange, not a gamble or interest-bearing loan. As the legal scholar Khaled El-Aqil observes, if cryptocurrencies are to be used, **zakat** should only be calculated on them as on gold/silver (i.e. treated like currency), since they otherwise fail Sharīʿah's money requirements. Ultimately, dialogue between blockchain innovators and Hanafi jurists is needed to design frameworks that align new technologies with enduring Islamic values.

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