Rusydiah: Jurnal Pemikiran Islam
Vol. 6, no. 2, 2025, 180-203
https://doi.org/10.35961/rsd.v6i2.3055

The Epistemology of Contemporary Ijtihad on Bank Interest: Shaykh Shawki Allam's Reconstruction of Islamic Legal Reasoning

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Submissions:
09-07-2026
Accepted:
10-09-2026
Published:
15-09-2026

Abstrak

Institusi keuangan modern menghadirkan persoalan hukum yang menantang kategori fikih klasik dan memerlukan pengembangan *ijtihād* kontemporer. Penelitian ini bertujuan merekonstruksi landasan epistemologis dan metodologis penalaran hukum Shaykh Dr. Shawki Allam mengenai bunga bank serta mengkaji kontribusinya terhadap pemikiran hukum Islam kontemporer. Penelitian menggunakan pendekatan kualitatif melalui studi pustaka dan analisis isi tematik terhadap tiga fatwa resmi *Dār al-Iftāʾ al-Miṣriyyah* yang diatribusikan kepada Allam, dengan didukung literatur fikih klasik dan kajian kontemporer. Hasil penelitian ini menunjukkan bahwa Allam mereklasifikasi hubungan bank dan nasabah dari *qard* (pinjaman) menjadi bentuk *tamwīl* (pembiayaan) dan *al-ʿuqūd al-mustaḥdathah* (akad-akad baru). Reklasifikasi tersebut dianalisis melalui prinsip kebolehan akad, *maṣlaḥah*, *gharar*, *ḍarar*, otoritas fatwa, regulasi negara, dan pengelolaan *ikhtilāf* (perbedaan pendapat hukum). Penelitian menemukan bahwa penalaran Allam mengintegrasikan otoritas tekstual, prinsip hukum, reklasifikasi kontekstual, evaluasi kontraktual, dan pertimbangan institusional. Kontribusi penelitian terletak pada identifikasi konfigurasi tersebut sebagai bentuk transformasi penalaran hukum Islam kontemporer dalam merespons institusi keuangan modern.

Kata Kunci : *Ijtihād* Kontemporer; *Maṣlaḥah*; Bunga Bank; Shaykh Shawki Allam

Abstract

Modern financial institutions pose legal questions that challenge classical fiqh categories and require new forms of contemporary ijtihād. This study aims to reconstruct the epistemological and methodological foundations of Shaykh Dr. Shawki Allam's legal reasoning on bank interest and assess its contribution to contemporary Islamic legal thought. Using a qualitative library-research approach, the study applies thematic content analysis to three official fatwas issued by Dār al-Iftāʾ al-Miṣriyyah and attributed to Allam, supported by classical fiqh literature and contemporary scholarship. The findings show that Allam reclassifies bank–customer relations from qard (loan) to tamwīl (financing) and al-ʿuqūd al-mustaḥdathah (new contractual arrangements). This reclassification is assessed through contractual permissibility, maṣlaḥah, gharar, ḍarar, fatwa authority, state regulation, and the management of ikhtilāf (juristic disagreement). The study finds that Allam's reasoning integrates textual authority, legal principles, contextual reclassification, contractual evaluation, and institutional considerations. It contributes by identifying this configuration as a contemporary transformation of Islamic legal reasoning in addressing modern financial institutions.

Keywords: *Contemporary Ijtihād; Maṣlaḥah; Bank Interest; Shaykh Shawki Allam*

INTRODUCTION

The emergence of modern financial institutions has generated new legal questions that challenge established categories of Islamic jurisprudence. Bank interest represents one of the most contested issues in contemporary Islamic legal thought because it involves the relationship between textual formulations concerning *ribā*, the juridical classification of financial contracts, and the changing institutional and economic characteristics of modern banking (Kamla & Alsoufi, 2015; Naomi & Jannah, 2026). The debate therefore extends beyond the question of whether bank interest is permissible or prohibited. It also raises a broader epistemological question concerning how contemporary Muslim scholars formulate legal judgments when established juridical categories encounter financial institutions and contractual arrangements that differ from those prevalent in the classical period.

The contemporary debate on bank interest encompasses several positions that employ different textual, juridical, and contextual considerations (Yevhen Leheza, Oleksandr Kurakin, Olha Shapovalova, Kateryna Sokh, 2026). Major Islamic fiqh institutions, including the International Islamic Fiqh Academy (IIFA), as well as Islamic financial standard-setting institutions such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), generally regard predetermined increases attached to loan transactions as falling within the prohibition of *ribā* (Wani & Dar, 2022). This position is grounded in the interpretation of Qur'anic and Prophetic sources and in established juridical principles concerning *ribā al-nasīʾah* and loan-based transactions (Alim et al., 2026; Ganaie et al., 2025). From this perspective, the legal classification of a financial transaction is closely related to the nature of the underlying contractual relationship and the conditions attached to it.

Other contemporary scholars have developed alternative interpretations by taking into account the historical context and economic function of interest within modern financial institutions. Studies of Fazlur Rahman's thought, for example, emphasize the importance of distinguishing the Qur'anic prohibition of *ribā* from the various forms of interest found in modern economic systems (Fazli, 2021). Similarly, Muhammad Sayyid Tantawi has been discussed in relation to an approach that differentiates bank interest from forms of *ribā* associated with exploitative lending by considering the institutional and economic context of modern banking (Utami, 2014). Another strand of Islamic legal reasoning employs *maqāṣid al-sharīʿah* and *maṣlaḥah* to assess contemporary financial practices in relation to the broader objectives of Islamic law (Tambunan et al., 2026; Zurifah Nurdin, Suryani, 2025). These approaches do not necessarily produce identical legal conclusions, but they demonstrate that the contemporary debate involves different ways of relating textual sources, juridical principles, and changing social realities.

The diversity of these positions demonstrates the continuing significance of *ijtihād* in addressing new institutional and economic circumstances. Modern banking differs from many classical forms of lending in terms of its organizational structure, contractual relationships, financial intermediation, and regulatory framework. The emergence of new contractual forms, discussed within the concept of *al-ʿuqūd al-mustaḥdathah*, consequently raises questions regarding the applicability and adaptation of established juridical categories. The central issue is therefore not simply whether modern banking should be categorized according to an existing classical contract, but how contemporary jurists determine the legally relevant characteristics of newly emerging financial arrangements.

Within this context, the legal reasoning of Shaykh Shawki Allam provides a significant case for examining the transformation of contemporary Islamic *ijtihād*. As a prominent Egyptian Islamic jurist and former Grand Mufti of Egypt associated with *Dār al-Iftāʾ al-Miṣriyyah*, Allam's position offers an institutional setting in which classical Islamic legal sources are interpreted in relation to contemporary social and economic circumstances (Nouh, 2023). His treatment of bank interest is consequently important not only for its legal conclusion but also for the reasoning through which textual evidence, juridical principles, *maṣlaḥah*, contractual classification, and the characteristics of modern financial institutions are brought together.

The significance of examining Allam's position lies in understanding how contemporary Islamic legal authority responds to institutional change. A modern financial institution cannot necessarily be analyzed solely through its formal resemblance to a classical contract. Its institutional purpose, contractual structure, economic function, and regulatory environment may also become relevant to the process of legal classification. The analysis of Allam's reasoning therefore provides an opportunity to examine whether and how contemporary *ijtihād* reconstructs juridical categories when responding to new financial realities.

Accordingly, this study does not seek primarily to determine whether bank interest is economically rational or universally permissible. Rather, it examines how Shaykh Shawki Allam constructs his legal reasoning on bank interest and what this reasoning reveals about the transformation of contemporary Islamic legal thought (Al-mansouri, 2025). The study focuses particularly on the relationship between textual sources, juridical reasoning, *maṣlaḥah*, new contractual forms, and the institutional characteristics of modern banking.

LITERATURE REVIEW

Contemporary Islamic Legal Reasoning on Bank Interest

The debate on bank interest has generated a substantial body of Islamic legal and intellectual literature. One major strand maintains that bank interest should be classified as *ribā* because it involves a predetermined increase associated with a loan transaction. Farooq for example, discuss the juridical arguments that connect contemporary interest-bearing transactions with the classical prohibition of *ribā* (Farooq, 2009). Gozaly and Anggraini likewise examine the relationship between bank interest and *ribā* within the framework of Islamic legal principles (Gozaly & Anggraini, 2024). These studies are important for demonstrating the continuity of classical juridical reasoning in contemporary discussions of financial transactions.

A different strand of scholarship emphasizes the need to consider the historical and institutional context of modern banking. Kuran discusses the institutional and intellectual challenges involved in applying traditional Islamic economic categories to modern economic systems (Kuran, 2002). Studies concerning Fazlur Rahman and Muhammad Sayyid Tantawi likewise indicate attempts to distinguish the Qur'anic prohibition of *ribā* from forms of interest operating within modern financial institutions (Nihayah et al., 2025). Rather than treating the legal classification of interest as exclusively dependent on its formal contractual appearance, these approaches give greater attention to the historical circumstances, economic functions, and institutional characteristics of financial transactions.

A third strand employs *maqāṣid al-sharīʿah* and *maṣlaḥah* as analytical resources for responding to new economic practices. Muhammad Shahrul dkk demonstrate the relevance of *maqāṣid*-based reasoning in contemporary Islamic finance, particularly in addressing legal questions that arise from changing economic circumstances (Muhammad Shahrul Ifwat Ishak, 2020). This approach emphasizes that legal reasoning may involve consideration of the purposes and consequences of a transaction in addition to its formal contractual structure. Such scholarship contributes to a broader understanding of contemporary *ijtihād* as a process through which Islamic legal principles are interpreted in relation to changing social conditions.

Taken together, these studies indicate that the debate on bank interest involves more than a disagreement concerning a particular legal ruling. It reflects different epistemological approaches to the relationship between text, legal categories, institutional context, and public interest. However, existing scholarship has predominantly concentrated on the substantive legal status of bank interest, the relationship between interest and *ribā*, or the economic implications of alternative interpretations. Less attention has been directed toward reconstructing the internal structure of the reasoning employed by specific contemporary fatwa authorities in addressing this issue.

Fatwa Institutions and the Transformation of Contemporary Ijtihād

The study of contemporary Islamic legal thought also requires attention to the institutional context in which legal opinions are produced. Modern fatwa institutions operate within social and regulatory environments that differ significantly from the scholarly settings of classical jurisprudence. The authority of a contemporary fatwa is therefore shaped not only by textual interpretation but also by institutional structures, professional expertise, public needs, and the relationship between religious authority and the modern state.

In this context, *Dār al-Iftāʾ al-Miṣriyyah* represents an important institutional setting for examining contemporary Islamic legal reasoning (Asri et al., 2026; Aswadi, M Yusuf, Roudlotul Jannah, Tawwabuddin, 2026). Its role in responding to questions arising from modern social, economic, and technological developments provides an opportunity to examine how traditional juridical resources are mobilized in relation to new circumstances . The study of fatwa production therefore extends beyond identifying whether a particular ruling is permissible or prohibited; it also concerns the epistemological processes through which legal authority selects evidence, identifies the relevant legal category, evaluates contextual considerations, and formulates a ruling.

This institutional dimension is particularly relevant to the study of Shaykh Shawki Allam. His position within the Egyptian fatwa institution makes his legal reasoning significant for understanding how contemporary Islamic authority negotiates continuity with the classical juridical tradition while responding to modern institutional realities. Nevertheless, existing studies have not sufficiently reconstructed the methodological relationship between Allam's textual arguments, juridical principles, *maṣlaḥah*, and his treatment of contemporary financial institutions.

Al-ʿUqūd al-Mustaḥdathah, Maṣlaḥah, and the Transformation of Financial Contracts

The emergence of new forms of contracts provides an important dimension in contemporary Islamic legal reasoning. The concept of *al-ʿuqūd al-mustaḥdathah* refers to newly formulated contractual arrangements that arise in response to changing social and economic needs and whose structures may not correspond directly to the classical *ʿuqūd musammāh* (nominated contracts). Contemporary Islamic finance has therefore developed various contractual combinations and structures to accommodate new forms of financing, investment, and commercial activity. Soualhi, for example, demonstrates that the development of contemporary Sharīʿah contracts should be assessed not only through their formal contractual structures but also through the *maqāṣid* embedded in their application, including justice, wealth circulation, transparency, and the protection of contracting parties (Soualhi, 2015).

The relevance of *al-ʿuqūd al-mustaḥdathah* to contemporary banking lies in the methodological question of whether new financial transactions should be classified primarily according to their formal contractual characteristics or examined in relation to their institutional functions and objectives. This question becomes particularly important when modern financial institutions involve relationships among depositors, banks, investors, borrowers, and regulatory authorities that differ structurally from the bilateral contractual relationships commonly discussed in classical *fiqh al-muʿāmalāt*. The application of *maqāṣid al-sharīʿah* provides one analytical framework for examining this relationship between established legal principles and changing institutional realities. Ishak and Asni, for instance, demonstrate the relevance of *maqāṣid*-based reasoning in applying *fiqh muʿāmalāt* to modern Islamic banking practices (Muhammad Shahrul Ifwat Ishak, 2020).

However, the use of *maṣlaḥah* does not automatically establish the permissibility of every newly developed financial practice. Rather, its analytical significance lies in examining how the benefits, harms, objectives, and institutional consequences of a transaction are assessed within the broader framework of Islamic legal principles. This distinction is important because a *maqāṣid*-based approach may function as a framework for evaluating competing legal considerations rather than simply as a justification for a predetermined legal conclusion. The literature on contemporary Sharīʿah contracts similarly emphasizes that innovation in contractual forms remains subject to the objectives and normative boundaries of Islamic law.

Against this background, the debate concerning bank interest can be understood as part of a broader transformation in Islamic legal reasoning. The question is not merely whether an additional payment is legally permissible, but how a contemporary jurist determines the appropriate legal classification of a financial relationship, identifies its operative characteristics, and relates that classification to established principles concerning *ribā*, *maṣlaḥah*, contractual freedom, and institutional change.

The preceding literature demonstrates that scholarship on contemporary Islamic finance has addressed the application of *maqāṣid* to modern banking, the development of new contractual structures, and the relationship between formal Sharīʿah contracts and their substantive objectives. However, these studies do not by themselves explain how these elements are integrated within the reasoning of Shaykh Shawki Allam when addressing the legal status of bank interest. This distinction is important because the present study does not merely investigate whether a particular legal conclusion is permissible; it seeks to reconstruct the reasoning through which that conclusion is produced by a contemporary fatwa authority.

The research gap of this study is located at the level of epistemological and methodological reconstruction. Existing scholarship has examined several elements relevant to contemporary discussions of bank interest, including the relationship between *ribā* and interest, contextual reinterpretation of financial transactions, *maqāṣid al-sharīʿah*, and the development of new contractual forms. However, these elements have generally been examined separately or in relation to the substantive legal status of bank interest. Less attention has been given to how these elements are integrated within the reasoning of Shaykh Shawki Allam and how the institutional authority of *Dār al-Iftāʾ al-Miṣriyyah* contributes to the construction and institutionalization of his legal conclusion.

The distinctiveness of this study therefore does not rest on the claim that Allam was the first contemporary scholar to consider *maṣlaḥah*, contractual innovation, or the institutional character of modern banking. Similar concerns can be found in the works of Fazlur Rahman, Muhammad Sayyid Tantawi, Abdullah Saeed, and Mahmoud El-Gamal, although they approach the problem from different intellectual and methodological perspectives. Rahman emphasizes the historical and moral context of the Qur'anic prohibition of *ribā*; Tantawi gives greater attention to the contractual characterization of contemporary banking activities; Saeed incorporates contextual and socio-economic considerations into the interpretation of *ribā*; while El-Gamal critically examines the relationship between formal legal structures and the substantive economic functions of Islamic finance. The present study extends this literature by examining how these dimensions are configured within Allam's institutional fatwa reasoning rather than treating them as independent arguments for or against bank interest.

The textual analysis enables this study to reconstruct a five-stage configuration in Allam's reasoning : textual authority → legal principle → reclassification of the legal object → contextual and contractual evaluation → institutional and legal resolution. The significance of this configuration lies in the relationship among its components. Allam begins with general Sharīʿah principles concerning contractual permissibility and the fulfillment of agreements, applies these principles to the classification of contemporary banking relationships, considers the relevance of *maṣlaḥah*, *gharar*, and *ḍarar*, and subsequently situates the legal conclusion within the institutional authority of *Dār al-Iftāʾ* and the regulatory context of the state. Thus, the distinctive analytical contribution of this study is not the discovery of a new argument for the permissibility of bank interest, but the reconstruction of how the legal object itself is reclassified and how that reclassification interacts with contractual innovation, public interest, institutional fatwa authority, state regulation, and the resolution of *ikhtilāf*. In this configuration, contractual innovation is not treated as an isolated justification; rather, it follows from the recharacterization of the bank–customer relationship and is subsequently situated within contextual, institutional, and regulatory considerations.

This configuration provides a basis for distinguishing Allam's approach from broader contextual approaches to contemporary Islamic law. Whereas contextual reinterpretation may focus primarily on the historical circumstances, purposes, or consequences of a ruling, Allam's reasoning, as reconstructed from the primary corpus, places particular emphasis on the juridical characterization of the contemporary banking relationship and the institutional setting in which that characterization is authorized and communicated. The contribution of this study therefore lies in demonstrating how contemporary *ijtihād* may operate not simply through reinterpretation of a textual ruling, but through a transformation in the classification of the legal object, followed by contextual evaluation and institutional authorization. Bank interest consequently functions as a substantive case through which the transformation of contemporary Islamic legal reasoning can be examined, rather than as an end in itself.

Accordingly, the analytical focus of this study is not to independently establish whether bank interest is economically rational or universally legally permissible, but to reconstruct the epistemological and methodological foundations of Allam's *ijtihād*. The study addresses two questions : (1) What epistemological and methodological foundations underpin Shaykh Shawki Allam's legal reasoning on bank interest ? and (2) How does his reasoning illustrate a transformation in contemporary Islamic legal reasoning in responding to modern financial institutions ? Through these questions, the study contributes to contemporary Islamic thought by reconstructing the relationship between textual authority, legal principles, contractual innovation, *maṣlaḥah*, institutional fatwa authority, state regulation, and the resolution of legal disagreement. The contribution is therefore not to establish the universal validity of Allam's legal conclusion, but to explain the particular configuration of legal reasoning through which his position on contemporary banking is constructed.

RESEARCH METHOD

This study employs a qualitative library research design to reconstruct the epistemological and methodological foundations of Shaykh Shawki Allam's *ijtihād* on bank interest. It adopts a normative-interpretive approach, focusing on the relationship between textual evidence, juridical principles, *maṣlaḥah*, new contractual forms, and the institutional and regulatory context of modern banking. This approach is consistent with qualitative studies of contemporary Islamic legal methodology that use library research to examine the development of *ijtihād* and Islamic legal reasoning (Firdaus, Ahmad Juneidi, Lola Astari, 2020; Lailatul Winda Innayah, Titin Rahmawati, Alfira Khairunnisa, Shabrina Farah Nazila, 2025).

The primary corpus consists of three official fatwas issued by Dār al-Iftāʾ al-Miṣriyyah under the attribution of Shaykh Shawki Ibrahim Allam, supplemented by his published discussion of banking transactions where it reproduces or elaborates the same legal reasoning. The three official fatwas were selected because they directly address bank interest, the characterization of bank–customer relationships, new contractual forms, and the legal basis of contemporary banking operations. Fatwa No. 3616, issued on 28 March 2016, states that bank deposits and savings accounts are to be understood as newly developed financing contracts rather than loans that generate prohibited benefit. Fatwa No. 5111, issued on 25 August 2020, reiterates that the relationship between banks and their customers is one of financing and that the resulting returns are financing profits rather than interest on loans. Fatwa No. 7836, issued on 18 May 2023 (2023, علام), provides a more extensive exposition of the legal bases of banking operations, including the characterization of deposits, the possibility of new unnamed contracts, the role of Egyptian banking legislation, and the relationship between banking practices and contemporary legal regulation.

The corpus is therefore deliberately limited rather than presented as an exhaustive collection of all fatwas issued by Allam. The inclusion criteria are: (1) official publication or authoritative attribution to Shaykh Shawki Allam; (2) direct relevance to bank interest, deposits, financing, or related banking contracts; (3) the presence of substantive legal reasoning rather than a conclusion alone; and (4) availability of the original Arabic text or an officially published version. The 2020 published compilation of Allam's fatwas is used as a supporting primary source where it reproduces or consolidates the same reasoning found in the official fatwa materials. Secondary sources, including scholarly books and peer-reviewed articles on *ribā*, *ijtihād*, *maqāṣid al-sharīʿah*, *maṣlaḥah*, and contemporary financial institutions, are used for contextualization and comparison rather than as evidence of Allam's own position. (Ahmad Hilmi, Moh. Najib, Hasan Bisri, Burhanuddin, 2025).

Table 1. Primary Corpus of the Study

No.	Fatwa / Primary Document	Year	Issuing Institution	Attribution to Allam	Main Issue	Function in the Analysis
1	Fatwa No. 3616, *Ḥukm Fawāʾid al-Bunūk wa al-Taʿāmul Maʿahā*	2016	Dār al-Iftāʾ al-Miṣriyyah	Officially attributed to Shaykh Shawki Ibrahim Allam	Bank interest, deposits, savings accounts, *ʿuqūd al-tamwīl al-mustaḥdathah*, *gharar*, *ḍarar*, and state authority	Establishes the basic contractual reclassification of bank deposits and the relationship between new contracts, public interest, and legal authority
2	Fatwa No. 5111, *Ḥukm Fawāʾid al-Bunūk wa Ḥukm al-Intifāʿ Bihā*	2020	Dār al-Iftāʾ al-Miṣriyyah	Officially attributed to Shaykh Shawki Ibrahim Allam	Permissibility of bank dealings and returns; bank–customer relationship as *tamwīl*	Corroborates and restates the financing-based characterization and its consequence for the classification of bank returns

No.	Fatwa / Primary Document	Year	Issuing Institution	Attribution to Allam	Main Issue	Function in the Analysis
3	Fatwa No. 7836, *al-Mustanadāt al-Sharʿiyyah li-ʿAmal al-Bunūk*	2023	Dār al-Iftāʾ al-Miṣriyyah	Officially attributed to Shaykh Shawki Ibrahim Allam	Legal bases of banking operations, deposits, financing, new contracts, banking law, and resolution of disagreement	Provides the most extensive account of Allam's legal reasoning and connects contractual classification with contemporary banking practice and state regulation

Source: Dār al-Iftāʾ al-Miṣriyyah, Fatwa Nos. 3616 (2016), 5111 (2020), and 7836 (2023). The table identifies the primary documents analyzed in this study rather than the entire body of Allam's fatwas.

Data are collected through systematic documentation and analyzed using qualitative thematic content analysis. The unit of analysis is the argumentative passage in which Allam presents a legal premise, interprets a textual source, classifies a transaction, invokes a juridical principle, considers contextual factors, or derives a legal conclusion. The analysis proceeds through four stages : (1) identifying significant argumentative statements in each primary document; (2) grouping these statements into analytical categories; (3) examining relationships and sequences among the categories; and (4) comparing recurring patterns across the three primary documents. The main analytical categories are textual authority, legal principles, contractual classification, *al-ʿuqūd al-mustaḥdathah*, *maṣlaḥah*, *gharar* and *ḍarar*, institutional and state authority, and the treatment of *ikhtilāf*. This procedure enables the study to reconstruct the structure of Allam's legal reasoning rather than merely summarize the conclusions of his fatwas.

A hermeneutical perspective is employed as an interpretive lens to examine the relationship between text, context, legal concepts, and legal conclusions. The analysis distinguishes between primary textual evidence, the researcher's interpretive reconstruction, and comparative evaluation in order to avoid presenting researcher interpretation as an explicit statement of Allam. Arabic primary texts are examined in their original form whenever available. Key juridical terms such as *ribā*, *qard*, *tamwīl*, *al-ʿuqūd al-mustaḥdathah*, and *maṣlaḥah* are retained in transliteration. English translations of Arabic passages are provided by the researcher unless otherwise indicated.

To maintain analytical transparency, an audit trail records the source document, relevant passage, original Arabic terminology, initial code, analytical category, and its relationship to the research questions. The analysis also distinguishes the evidentiary function of each source: the three official fatwas constitute the principal primary evidence;

the 2020 published compilation functions as supporting primary material where it reproduces or elaborates Allam's reasoning; while classical jurisprudential sources, contemporary scholarship, and institutional publications serve primarily as contextual and comparative sources. This procedure limits the scope of the study to the identified primary corpus and enables a traceable reconstruction of Allam's contemporary *ijtihād* while maintaining a clear distinction between textual evidence and researcher interpretation.

RESULTS AND DISCUSSION

1. The Argumentative Structure of Shaykh Shawki Allam's Fatwa

The analysis of the primary corpus indicates that Shaykh Shawki Allam's position on bank interest is constructed through a sequence of juridical arguments rather than through a single claim concerning the permissibility of interest. The central structure of his reasoning consists of four interconnected premises : (1) the general permissibility of contractual arrangements in *muʿāmalāt*; (2) the possibility of establishing new contractual forms in response to changing circumstances; (3) the classification of contemporary banking transactions as contracts other than *qard*; and (4) the consideration of *maṣlaḥah*, *ḍarar*, and institutional regulation in determining their legal consequences (Al-Ifta, 2016).

This structure is important because Allam does not begin his argument by denying the prohibition of *ribā*. On the contrary, his reasoning accepts the prohibition of *ribā* as established in Islamic law but disputes whether contemporary bank deposits and related transactions should automatically be classified as *qard*. The central issue in his reasoning is therefore not the validity of the prohibition itself, but the juridical classification of the contemporary transaction to which the prohibition is applied (2024, علام).

This distinction represents the principal finding of the textual analysis. Allam's argument can be represented as follows:

Normative premise → contractual classification → contextual assessment → legal consequence

The normative premise is derived from the general permissibility of contracts and the obligation to fulfil contractual agreements. The second stage concerns the classification of the banking relationship. The third considers whether the transaction contains legally prohibited elements such as *gharar* and *ḍarar* and whether it realizes a legitimate benefit (*maṣlaḥah*) (2014, علام). The final stage is the determination that the transaction does not fall within the category of prohibited *ribā* when it is structured as a new contractual arrangement rather than a conventional *qard.* (Abdullah & Mukhlas, 2020; Solahuddin, 2025).

Accordingly, the analytical object of Allam's *ijtihād* is not simply "interest" as an economic variable but the legal characterization of the relationship between the bank and its customer. This finding shifts the discussion from the question "Is every bank interest *ribā*?" to the more fundamental juridical question: What type of contract is the contemporary banking relationship?

2. Reclassification of Bank Transactions: From *Qard* to New Contracts

The most significant finding in Allam's fatwa is his rejection of an automatic equivalence between contemporary banking transactions and the classical *qard* contract. In Fatwa No. 3616 (2016), Dār al-Iftāʾ al-Miṣriyyah explicitly classifies bank deposits, savings accounts, and similar transactions as newly established financing contracts (*ʿuqūd al-tamwīl al-mustaḥdathah*) rather than loans that generate prohibited benefits. The fatwa further states that new contractual forms are permissible when they are free from *gharar* and *ḍarar* and serve the interests of the contracting parties (Dar Al-Ifta al-Misriyyah, 2016)

This classification is decisive because the legal consequences of *qard* and investment- or financing-oriented contracts differ. Within the classical *qard* framework, a stipulated increase associated with a loan may fall under the prohibition of *ribā*. When the underlying transaction is instead classified as a newly established financing contract, however, its legal assessment depends on the contractual structure, purpose, and conditions rather than solely on the existence of an additional monetary return (Dar Al-Ifta al-Misriyyah, 2016).

The textual analysis therefore identifies a methodological transformation: the legal inquiry moves from the apparent monetary return to the juridical characterization of the underlying transaction. Allam does not reject the prohibition of *ribā*; rather, he argues that contemporary banking transactions should not automatically be treated as *qard*. His *ijtihād* thus operates through the reclassification of the legal object, followed by an assessment of contractual conditions, *maṣlaḥah*, *gharar*, *ḍarar*, and institutional regulation.

The textual analysis reveals a sequential structure in Allam's reasoning, moving from the identification of the legal issue to the reclassification of the banking transaction and the assessment of its legal consequences. This structure can be summarized as follows.

Table 2. Reconstruction of Allam's Legal Reasoning on Bank Transactions

Analytical Stage	Allam's Legal Reasoning
Legal issue	Whether contemporary banking transactions constitute *qard*
Classical category	*Qard* as a loan contract subject to the prohibition of *ribā*
Reclassification	Banking transactions as newly established financing contracts (*ʿuqūd al-tamwīl al-mustaḥdathah*)

Analytical Stage	**Allam's Legal Reasoning**
Juridical principles	Permissibility of contracts, fulfilment of agreements, *maṣlaḥah*, avoidance of *gharar* and *ḍarar*
Contextual assessment	Consideration of the institutional and economic character of contemporary banking
Legal consequence	Monetary returns are not automatically classified as *ribā* when the underlying contract is not *qard*
Final position	Permissibility depends on the contractual structure and compliance with relevant legal requirements

Source : Author's analysis of the primary corpus

The table demonstrates that Allam's *ijtihād* operates primarily through legal reclassification rather than through a revision of the prohibition of *ribā*. The decisive methodological move is therefore the reconsideration of the underlying contractual relationship between the bank and the customer (Hamidah, 2019; Prabowo, 2025).Once the transaction is classified as a newly established financing contract rather than *qard*, its legal consequences are assessed through contractual conditions, *maṣlaḥah*, *gharar*, *ḍarar*, and the institutional context of modern banking.

3. *Maṣlaḥah*, *Ḍarar*, and the Permissibility of New Contracts

A second major finding concerns the role of *maṣlaḥah* in Allam's legal reasoning. The fatwa begins by emphasizing that Islamic law takes human needs and welfare into consideration in regulating *muʿāmalāt*. Allam subsequently refers to the general principle that contractual arrangements are permissible provided that they do not involve prohibited elements such as *gharar* and *ḍarar* (Allam, 2020).

The analysis shows that *maṣlaḥah* functions in Allam's argument not as an independent justification that automatically overrides textual prohibition. Rather, it operates within the process of determining whether a contemporary transaction belongs to a permissible contractual category. This distinction is important because it prevents *maṣlaḥah* from being interpreted as a general mechanism for declaring otherwise prohibited transactions permissible.

The argumentative sequence can therefore be formulated as :

Existence of a new contractual form → presumption of permissibility → examination of prohibited elements → consideration of benefit and harm → legal determination.

In this framework, the novelty of a contract does not itself constitute a sufficient reason for prohibition. The relevant question is whether the contract contains characteristics that Islamic law identifies as legally problematic. The approach thus gives substantial attention to the conditions and consequences of the transaction rather than merely to whether the contract has a direct precedent in classical fiqh.

The finding also clarifies the relationship between *al-ʿuqūd al-mustaḥdathah* and *fiqh al-nawāzil*. New contractual forms are not necessarily outside the scope of Islamic jurisprudence merely because they were unknown to earlier jurists. Instead, they become objects of *ijtihād* through the application of established legal principles to changing institutional circumstances.

Consequently, Allam's position can be understood as an attempt to preserve continuity with Islamic legal methodology while allowing the object of legal classification to respond to institutional transformation. The continuity is found in the use of established juridical principles, whereas the transformation occurs in the classification of contemporary financial arrangements.

4. The Role of *Tamwīl* and Institutional Transformation

The third finding concerns the importance of institutional context in Allam's classification of bank transactions. In his discussion, contemporary banking institutions are not represented simply as individual creditors or debtors. They are treated as institutional actors operating through regulated financial arrangements (Werner, 2014).

This institutional characteristic contributes to the distinction between classical *qard* and contemporary banking transactions. The bank operates within an organizational and regulatory structure that determines how funds are collected, managed, invested, and returned to customers. Therefore, the juridical classification of the relationship cannot be established solely by observing the existence of an additional monetary return.

The concept of *tamwīl* is particularly relevant in this respect. Where the transaction is conceptualized as financing or investment rather than a gratuitous loan, the source of the return must be analyzed through the structure of the contractual relationship. Allam's reasoning therefore places contractual characterization before the determination of whether the resulting return constitutes *ribā*.

This finding also explains why the institutional context of *Dār al-Iftāʾ al-Miṣriyyah* is important. The fatwa does not emerge solely from an individual interpretation but from an institutional setting in which contemporary legal questions are addressed through an established process of religious legal authority. The institutional dimension consequently forms part of the epistemological structure of the fatwa itself.

5. State Authority and the Resolution of *Ikhtilāf*

Another important finding is the role of state authority in Allam's reasoning. The fatwa refers to the principle that a governmental or judicial decision may serve to resolve disagreement concerning a matter in which different legal opinions exist (Asrim Muda Harahap, Nosudera TTR, Ilman Sakti Siregar, 2026; Ibrahim, B., Arifin , M., 2015). This principle provides an institutional dimension to the construction of legal certainty.

The significance of this argument is not that state regulation automatically transforms a prohibited transaction into a permissible one. Rather, state authority contributes to the institutional determination and standardization of contractual arrangements within the contemporary financial system. The legal status of banking transactions is therefore considered in relation to both Islamic juridical reasoning and the regulatory framework governing financial institutions.

This aspect distinguishes Allam's approach from a purely individualistic model of *ijtihād*. His legal reasoning operates through the interaction of three forms of authority : textual authority, juristic authority, and institutional/state authority.

Table 3. Function in Allam's Reasoning

Source of Authority	Function in Allam's Reasoning
Qur'an and Sunnah	Establish general normative principles and the prohibition of *ribā*
Classical fiqh and *uṣūl al-fiqh*	Provide concepts and legal principles for contractual classification
Dār al-Iftāʾ al-Miṣriyyah	Institutionalizes the interpretation and issuance of the fatwa
State regulation	Provides institutional recognition and regulatory certainty
Contemporary economic context	Constitutes the changing object to which juridical principles are applied

Source : Author's analysis of the primary corpus and comparative literature.

The finding demonstrates that Allam's *ijtihād* is not based exclusively on economic rationality. It is a multilayered process in which textual, juridical, institutional, and contextual considerations interact.

6. Economic Rationality : Distinguishing Textual Evidence from Analytical Inference

The analysis requires a distinction between economic concepts explicitly stated in Allam's fatwa and concepts inferred by the researcher. This distinction is particularly important regarding inflation, opportunity cost, and the *Time Value of Money*.

The primary text analyzed in this study explicitly discusses *maṣlaḥah*, contractual benefit, harm, new contractual forms, and the institutional character of banking transactions. However, the concepts of the *Time Value of Money*, opportunity cost, and inflation compensation are not necessarily articulated by Allam in the technical terminology of contemporary economics.

Accordingly, the study treats these concepts as analytical implications rather than direct statements by Allam. The argument that Allam's reasoning is compatible with the economic logic of value preservation may therefore be proposed as a conceptual interpretation, but it should not be presented as evidence that Allam explicitly formulated a theory of the *Time Value of Money*.

Table 4. The distinction can be summarized as follows :

Level of Evidence	Finding
Explicit textual statement	New contractual forms, *maṣlaḥah*, avoidance of *gharar* and *ḍarar*, non-classification of banking contracts as *qard*, and permissibility of the resulting transactions
Interpretive reconstruction	Allam's legal reasoning shifts the analytical focus from the monetary increment itself to the classification and characteristics of the underlying contract
Conceptual implication	His reasoning can be read as compatible with concerns regarding capital preservation and changing monetary conditions
Not established directly by the corpus	A fully articulated theory of inflation compensation, opportunity cost, or *Time Value of Money*

Source : Author's analysis.

This distinction strengthens the methodological validity of the study because it prevents economic concepts developed by the researcher from being attributed directly to Allam without textual evidence.

7. Critical Assessment : The Problem of Contractual Substance

Although Allam's argument provides a clear methodological basis for distinguishing contemporary banking contracts from classical *qard*, the analysis also identifies an important unresolved issue. Reclassifying a transaction as a new contract does not by itself establish its substantive conformity with Islamic legal principles.

The critical question is therefore whether the contractual structure actually corresponds to the characteristics attributed to it. If a bank transaction is classified as investment or *tamwīl*, the analysis should examine the distribution of risk, the treatment of principal, the mechanism for determining returns, the existence of guarantees, and the parties' respective rights and obligations.

This point is particularly important when a predetermined return is involved. A fixed or predetermined return may raise a different juridical question from a genuinely risk-sharing arrangement. Consequently, changing the terminology from “interest” to “profit” cannot itself constitute sufficient evidence of substantive transformation.

The same analytical standard must therefore be applied to both sides of the debate. Critics who classify bank transactions as *qard* must demonstrate the contractual characteristics that justify this classification, while proponents of the new-contract approach must demonstrate that the actual contractual structure corresponds to the proposed category.

From this perspective, the strength of Allam's argument lies primarily in his method of legal classification, whereas the substantive validity of each particular banking product remains dependent on the characteristics of the contract concerned. This distinction also prevents the study from treating the fatwa as a universal validation of every form of interest-bearing banking transaction regardless of contractual structure.

8. Allam’s Epistemology of Contemporary *Ijtihād*

Taken together, the findings indicate that the distinctive feature of Allam's thought lies in the way he reorganizes the relationship between text, legal classification, context, and institutional authority.

The epistemological structure identified in the corpus can be formulated through five interconnected dimensions :

Text → Legal principle → Contractual classification → Contextual evaluation → Institutional/legal conclusion

First, textual sources provide the normative foundation. Second, general juridical principles are employed to establish the permissibility of contractual innovation. Third, the contemporary banking relationship is classified according to its institutional and contractual characteristics rather than automatically being assimilated to *qard*. Fourth, *maṣlaḥah*, *ḍarar*, and the contemporary context are considered in assessing the transaction. Fifth, the conclusion is articulated through the institutional authority of *Dār al-Iftā*ʾ and its relationship with the broader regulatory order.

This structure suggests that Allam's approach represents a form of contextualized juridical reasoning rather than a simple rejection of classical fiqh (Al-mansouri, 2025). His innovation is located in the reinterpretation of the object of legal classification and in the use of established legal principles to address institutional forms that were not present in the same form in classical jurisprudence.

In this sense, the bank-interest debate becomes a case through which the transformation of contemporary Islamic legal thought can be observed. The central issue is not merely whether interest is legally permissible, but how a contemporary Islamic authority determines whether a modern economic practice belongs to a prohibited classical category.

9. Implications for Contemporary Islamic Thought

The findings have implications for the study of contemporary Islamic thought in at least three respects.

First, at the epistemological level, Allam's fatwa demonstrates the continuing relevance of *ijtihād* in dealing with institutional transformations. Classical legal categories remain important, but their application requires an examination of whether the contemporary object possesses the same juridical characteristics as the classical object.

Second, at the methodological level, the case demonstrates the importance of distinguishing between the prohibition of a legal category and the classification of a contemporary transaction. The prohibition of *ribā* remains a normative premise, while the debate concerns whether particular banking arrangements fall within that category.

Third, at the institutional level, the fatwa demonstrates that contemporary Islamic legal reasoning is increasingly produced through interaction among scholars, religious institutions, and state-regulated economic structures. The authority of the fatwa therefore cannot be separated entirely from the institutional setting in which it is produced and implemented.

These implications position Allam's thought within the broader development of contemporary Islamic intellectual history. His significance does not primarily lie in providing an economic justification for bank interest, but in demonstrating how Islamic legal reasoning can negotiate the relationship between inherited normative categories and transformed institutional realities.

The case of bank interest consequently illustrates a broader transformation in contemporary *ijtihād* : from determining whether a new practice has an explicit precedent in classical texts toward examining its contractual characteristics, purposes, consequences, and institutional context. This does not eliminate the authority of revelation or classical jurisprudence; rather, it changes the mode through which those sources are mobilized in responding to new social and economic realities.

Conclusion

This study concludes that the epistemological construction of Shaykh Shawki Allam's fatwa on bank interest is primarily developed through the reclassification of the contractual relationship between banks and their customers. Rather than treating contemporary banking transactions automatically as *qard*, Allam conceptualizes deposits, savings, investment certificates, and related banking instruments as forms of newly developed contracts (*al-ʿuqūd al-mustaḥdathah*) oriented toward financing and investment. Within this structure of reasoning, the return obtained from such contracts is therefore not positioned by Allam as an increment arising from a *qard*, but as a return associated with the contractual relationship established between the parties.

The analysis further shows that this reclassification is supported by several interconnected principles. These include the general permissibility of transactions, the possibility of formulating new contractual arrangements, consideration of *maṣlaḥah*, and the requirement that transactions be free from *ḍarar* and *gharar*. The argument also incorporates the institutional dimension of contemporary Islamic legal reasoning through the authority of Dār al-Iftāʾ al-Miṣriyyah and the regulatory framework of the state. Accordingly, the distinctive contribution of Allam's position lies not simply in permitting bank interest, but in relocating the point of legal analysis from the existence of an additional payment to the identification of the nature, purpose, and institutional context of the underlying contract.

From an epistemological perspective, the study identifies a pattern of contemporary *ijtihād* in which textual principles are interpreted in relation to newly emerging contractual forms and institutional realities. In Allam's reasoning, *maṣlaḥah* functions as an evaluative consideration alongside the absence of *ḍarar* and *gharar*, while the recognition of institutional and regulatory authority contributes to the resolution of contemporary legal disagreement. The study therefore understands Allam's approach as an example of the transformation of Islamic legal reasoning in response to changes in modern economic institutions.

At the same time, the findings do not establish that bank interest is objectively equivalent to *profit sharing*, nor do they demonstrate empirically that Allam's position produces greater economic efficiency, increases Muslim participation in global financial markets, or creates greater social and economic harmony. References to inflation, capital preservation, and *Time Value of Money* should likewise be understood primarily as interpretive implications of the argument rather than as concepts explicitly formulated in the analyzed fatwa, unless directly supported by primary textual evidence. The distinction between Allam's explicit statements and the researcher's interpretation is therefore essential to maintaining analytical distance.

The study also identifies a limitation concerning the scope of the primary corpus. The analysis is based primarily on the available fatwa material concerning bank interest and related institutional and contractual arguments. Consequently, the findings should not be generalized to represent the entirety of Allam's legal thought or to establish the empirical consequences of his position. Further research may examine a broader corpus of Allam's fatwas, compare his reasoning systematically with other contemporary fatwa institutions, and investigate how the contractual classifications discussed in the fatwa correspond to the actual structures of risk, return, liability, and guarantees in modern banking.

Overall, the significance of Allam's thought lies in demonstrating how contemporary Islamic legal reasoning can negotiate the relationship between normative texts, newly emerging contracts, *maṣlaḥah*, institutional authority, and changing economic realities. Bank interest thus serves in this study not merely as an issue of legal permissibility, but as a case through which the transformation of Islamic legal and intellectual reasoning in the contemporary period can be examined.

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