

A Comprehensive Review of Digital Assets in Shariah Law: Evaluating Cryptocurrency within the Framework of Muamalat Jurisprudence

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ABSTRACT

The rapid emergence of digital assets, specifically cryptocurrency, has transformed modern finance, introducing significant challenges and opportunities within the framework of Islamic finance. Grounded in Shariah law, the concept of muamalat governs Islamic commercial transactions, establishing principles that define permissible financial activities. This paper reviews the current literature on digital assets from an Islamic perspective, critically evaluating the legitimacy, risks, and ethical considerations of cryptocurrency within muamalat jurisprudence. Findings indicate a divided opinion among Shariah scholars, with some advocating conditional acceptance and others opposing cryptocurrency due to its volatility, lack of intrinsic value, and speculative nature. This study contributes to ongoing discussions by providing a structured framework for assessing cryptocurrency in alignment with Islamic finance principles.

Keywords: Digital Assets, Cryptocurrency, Shariah Law, Muamalat, Islamic Finance, Compliance, Ethical Considerations.

INTRODUCTION

The rise of digital assets, particularly cryptocurrency, has redefined the financial landscape, introducing new opportunities and challenges. Cryptocurrencies, such as Bitcoin and Ethereum, operate on decentralized blockchain networks that allow for peer-to-peer transactions without the need for traditional financial intermediaries (Shah et al., 2023). Since Bitcoin's debut in 2009, the cryptocurrency market has rapidly expanded, creating a unique financial environment marked by high volatility, innovation, and evolving regulations (M. Zhang et al., 2024). This transformation has drawn the attention of Islamic finance scholars, who must determine whether cryptocurrencies can be compatible with Shariah principles, specifically through the framework of muamalat, which governs Islamic commercial transactions (Billah 2022).

Islamic finance operates under Shariah law, rooted in ethical principles that emphasize justice, transparency, and social welfare. Key prohibitions in Islamic finance include *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling), each designed to foster fair and equitable (Al Rahahleh et al., 2019) Unlike conventional finance, which often prioritizes profit maximization, Islamic finance mandates ethical wealth creation, requiring that financial activities provide tangible benefits and avoid exploitation (Mansour 2015). Through muamalat, Islamic finance provides guidelines on permissible economic transactions, encouraging practices that align with the ethical imperatives of Shariah. The rapid adoption of cryptocurrencies, however, poses questions about how these assets fit within this framework, given their decentralized, unregulated nature and price volatility (Kayani 2024). Cryptocurrencies bring both potential benefits and concerns for Islamic finance. Proponents argue that digital assets foster financial inclusion, allowing individuals to access global markets and manage wealth independently, especially in regions with limited banking infrastructure (El Hajj 2024). However, critics highlight challenges such as cryptocurrencies' speculative nature, lack of intrinsic value, and potential misuse in activities deemed unethical under Islamic law (Groby, 2021). This duality presents Islamic scholars with a complex dilemma: they must evaluate the innovative aspects of cryptocurrency while safeguarding Islamic finance's ethical standards. A

growing body of literature has emerged to address whether cryptocurrencies can be deemed Shariah-compliant. Some scholars argue that certain cryptocurrencies, when structured to meet specific conditions, may align with Shariah requirements by promoting transparency and economic utility (Javaid et al., 2022). For example, blockchain technology’s transparency in recording transactions could align with Shariah’s emphasis on accountability and fair practices (Mohaiyadin et al., 2022). Conversely, others contend that the speculative and volatile nature of most cryptocurrencies fundamentally conflicts with muamalat principles, as they may encourage gharar and maysir, thereby undermining the stability and ethics of Islamic finance (Yahya 2024).

This paper contributes to the discourse by providing a comprehensive review of digital assets within the muamalat framework, focusing on the permissibility and ethical implications of cryptocurrency in Islamic finance. It examines contemporary scholarly perspectives, recent Shariah rulings, and the underlying principles of Islamic finance to evaluate cryptocurrency’s potential role within this framework. Moreover, this study proposes a structured framework for assessing cryptocurrency in alignment with muamalat, analyzing contract validity, ethical considerations, and asset classification. Through this analysis, the paper provides insights into the complexities and potential solutions for integrating digital assets into Islamic finance, thereby balancing innovation with Shariah’s ethical imperatives. As digital assets continue to evolve, the need for clear, consistent guidelines on their permissibility within Islamic finance becomes increasingly urgent. Grounding the evaluation of cryptocurrency in the principles of muamalat offers a balanced approach to navigating the digital finance landscape within an Islamic context. By examining cryptocurrency’s alignment with Islamic values, this paper aims to contribute to a nuanced understanding of how Islamic finance can adapt to technological advancements while preserving its ethical foundations.

Digital Asset in Islamic Perspective

The concept of digital assets has rapidly evolved, encompassing a variety of electronically stored financial instruments, including cryptocurrencies, tokenized securities, and digital representations of physical assets. Table 1 summaries the shariah principles where its compliance with cryptocurrency. This transformation has reshaped finance globally, allowing individuals to engage in decentralized, peer-to-peer transactions without the need for traditional banking intermediaries (Javaid et al., 2022). However, for digital assets to be incorporated into Islamic finance, they must align with the fundamental principles of Shariah law, which include prohibitions against riba (usury), gharar (excessive uncertainty), and maysir (gambling) (Al Rahahleh et al., 2019). These principles form the bedrock of Islamic finance, ensuring that economic activities promote fairness, transparency, and social justice. Islamic finance emphasizes the importance of ethical wealth creation, where financial transactions must be backed by tangible assets or represent legitimate economic activities (Boukhatem & Ben Moussa, 2018). Unlike fiat currency, which is backed by a central bank or government, cryptocurrencies like Bitcoin and Ethereum derive value solely from market demand and the functionality of their underlying blockchain technology (T. Zhang & Huang, 2022). The lack of intrinsic value and asset backing in cryptocurrencies raises questions among Islamic scholars, as this could imply that cryptocurrency lacks the legitimacy required for Shariah-compliant assets (Jalal 2024).

Asset-Backed Requirement: According to Islamic finance, assets must have an inherent or intrinsic value, meaning they should be tangible, identifiable, and verifiable. This asset-backed nature is essential in Islamic finance to ensure that transactions have a basis, reducing the potential for speculation and aligning with the Shariah principle of economic justice (Tabash 2018). Cryptocurrencies, by contrast, are intangible and not tied to physical assets, which has led some scholars to question their legitimacy under Islamic law (Lazea 2024). One of the most significant concerns about digital assets in Islamic finance is the presence of gharar or excessive uncertainty. Gharar is generally defined as the presence of ambiguity or risk in a contract, which could lead to unfair outcomes and unethical profit-taking (Elfakhani 2015). In the case of digital assets, gharar manifests in various ways, including the speculative trading behavior associated with cryptocurrency and the highly volatile nature of cryptocurrency prices (Mohd Noh, 2022). This volatility can lead to substantial financial losses, which contradicts the Islamic finance principle of promoting economic stability and social welfare.

Table 1: Comparison of Cryptocurrency Compliance with Shariah Principles

Shariah Principle	Definition	Compliance Challenge with Cryptocurrency	Potential Solutions
Riba (Usury)	Prohibition of interest	Cryptocurrency does not inherently involve interest, but speculative gains may	Asset-backed models with stability focus.

		indirectly contradict Shariah ethics.	
Gharar (Uncertainty)	Avoidance of excessive risk	High volatility introduces risk and uncertainty.	Stablecoins pegged to fiat or tangible assets.
Maysir (Gambling)	Prohibition of gambling	Speculative nature of trading resembles gambling.	Restrict speculative trading; focus on utility.
Transparency	Clear, fair transactions	Blockchain provides transparency, but technical complexity may reduce understanding.	Enhance education on cryptocurrency technology.
Environmental Impact	Stewardship of resources	Proof-of-work mining consumes large amounts of energy.	Use proof-of-stake or environmentally friendly models.

Some scholars argue that while a moderate degree of uncertainty is tolerable, excessive volatility, as seen in cryptocurrency markets, represents an unacceptable level of gharar. For example, the daily price fluctuations of Bitcoin, often by several percentage points, exemplify a level of risk that is typically discouraged in Islamic finance (Nabeel. K & Sumathy, 2023). As such, while blockchain technology may align with the principles of transparency and accountability, the trading nature of many digital assets could undermine their acceptability within Islamic finance. Islamic finance also emphasizes the ethical dimension of financial activities, requiring that they contribute positively to society and avoid harm. This social dimension is particularly relevant to the energy-intensive processes used in cryptocurrency mining, which have raised environmental and ethical concerns (Jones 2022). The mining of Bitcoin, for instance, consumes significant energy resources, leading to environmental consequences that conflict with Islamic values of sustainability and environmental stewardship (Anwer 2023).

From a social justice perspective, Islamic finance seeks to promote inclusive economic growth and protect the welfare of all stakeholders involved in financial transactions (Harahap et al., 2023). Critics argue that cryptocurrency, as a speculative asset, often benefits early adopters and wealthy investors, creating potential wealth inequality. Therefore, while digital assets offer financial inclusion to unbanked populations, the risk and speculative nature of these assets may contradict the ethical objectives of Islamic finance. The scholarly debate surrounding digital assets in Islamic finance remains divided. Some scholars, such as Muhammad Taqi Usmani, argue that the lack of intrinsic value and the speculative nature of cryptocurrency make it non-compliant with Shariah (Abubakar 2019). Usmani highlights that since cryptocurrencies are not backed by tangible assets, they introduce uncertainty and potential harm, which violates Islamic principles (Muhammad & Usmani, 2020).

Conversely, other scholars contend that cryptocurrencies, when used as a medium of exchange, could be permissible if their use avoids excessive speculation and aligns with Shariah requirements (Naz 2024). For instance, Albalawee (2023) argue that Bitcoin could be viewed as a digital currency rather than an asset, which would align it with Islamic finance principles as long as it is utilized transparently and for legitimate purposes. Given the unique characteristics of digital assets, several frameworks have been proposed to assess their compatibility with Islamic finance. A key consideration is whether digital assets can be structured to mitigate gharar and align with Islamic ethical principles (Rabbani 2022). For example, stablecoins, which are cryptocurrencies pegged to fiat currency or tangible assets, may offer a more Shariah-compliant alternative to traditional volatile cryptocurrencies by reducing uncertainty and establishing intrinsic value (Rahim & Zakaria, 2020). Blockchain technology, which underpins digital assets, may also be aligned with Islamic principles due to its transparency and ability to foster trust among participants. Blockchain-based transactions are traceable, reducing the potential for fraudulent behavior, which resonates with the Shariah emphasis on transparency in financial dealings (Almadadha 2024).

The emergence of central bank digital currencies (CBDCs) has added a new dimension to the discussion of digital assets in Islamic finance. CBDCs are digital representations of a nation's fiat currency, issued and regulated by central banks. Unlike cryptocurrencies, CBDCs are backed by government assets, which makes them less volatile and potentially more compatible with Shariah principles (Noviyanti, 2024). By incorporating CBDCs into Islamic finance, policymakers can address concerns about gharar and ensure that digital transactions align with the values of stability, transparency, and social justice. Islamic finance scholars continue to debate the potential for digital assets to align with Shariah law. While cryptocurrencies may pose challenges, the underlying blockchain technology and the advent of asset-backed digital currencies offer potential pathways for creating Shariah-

compliant digital assets. As the field of digital finance continues to evolve, ongoing research and collaboration between Islamic scholars, economists, and technologists will be essential to establishing a robust framework for the inclusion of digital assets in Islamic finance.

Evaluating Cryptocurrency

Cryptocurrency, as a decentralized form of digital currency, operates independently of traditional banking systems and derives its value from market demand, based on blockchain technology (Shahzad 2024). Since its inception with Bitcoin in 2009, cryptocurrency has revolutionized financial transactions, offering a peer-to-peer exchange system that promises lower transaction costs, financial inclusivity, and resistance to censorship (Ali 2020). However, in the context of Islamic finance, cryptocurrency presents unique challenges. Guided by Shariah principles, Islamic finance emphasizes ethical practices, mandating that financial instruments avoid *riba* (usury), *gharar* (excessive uncertainty), and *maysir* (gambling) (Mat Radzi 2024). Evaluating cryptocurrency under these principles reveals both potential alignment with, and significant challenges to, Shariah compliance. Table 2 provides an overview of three types of cryptocurrency models that may align with Shariah principles. Each model is described along with its rationale for Shariah compliance and specific examples to illustrate practical applications within Islamic finance.

Table 2 Shariah-Compliant Models in Cryptocurrency

Model	Description	Shariah Compliance Rationale	Examples
Stablecoin	A cryptocurrency pegged to fiat currency or tangible assets, offering price stability.	Minimizes <i>gharar</i> by maintaining stable value, avoiding excessive volatility.	Tether (USDT), USD Coin (USDC)
Asset-backed Cryptocurrency	Digital asset tied to physical commodities, like gold, to provide intrinsic value.	Meets asset-backed requirements, aligning with Shariah's emphasis on tangible value.	Gold-backed tokens like PAX Gold
Central Bank Digital Currency (CBDC)	Digital currency issued by central banks, backed by government reserves, ensuring stability.	Provides backing by a sovereign authority, promoting stability and transparency.	Pilot programs by central banks (e.g., Malaysia's Digital Ringgit)

To assess cryptocurrency's compatibility with Islamic finance, we must examine how it interacts with the prohibitions of *riba*, *gharar*, and *maysir*.

1. *Riba* (Usury): In Islamic finance, *riba*, or interest, is strictly forbidden as it represents unearned profit through the charging of interest on loans. Cryptocurrency transactions, which rely on peer-to-peer networks and blockchain technology, typically do not involve traditional interest-bearing mechanisms (Huynh-The 2023). This absence of interest can suggest compliance with Shariah principles. However, some argue that the speculative profit motive behind cryptocurrency investments could indirectly create wealth inequality, contradicting the ethical objectives of Islam (Wartoyo and Haerisma, 2022).
2. *Gharar* (Uncertainty): Shariah mandates clarity in contractual obligations to prevent *gharar*, which entails excessive uncertainty that could lead to unjust outcomes (Bouslama, 2017). Cryptocurrency's high volatility is often seen as a form of *gharar*, as significant price fluctuations may expose investors to substantial losses. The daily price variations in major cryptocurrencies such as Bitcoin and Ethereum highlight an inherent instability that can be problematic for Islamic finance, which values stability and predictability (Ali 2024). This volatility challenges Shariah compliance, as unpredictable price swings may result in outcomes that are contrary to Islamic economic principles.
3. *Maysir* (Gambling): *Maysir*, or gambling, is prohibited in Islam as it involves earning profit through chance rather than productive activity. The speculative nature of cryptocurrency trading has led some scholars to equate it with gambling, arguing that its price is often driven by market hype and investor sentiment rather than fundamental value (Johnson, 2023). In Islamic finance, legitimate wealth accumulation should be based on productive activities. Cryptocurrency, with its susceptibility to speculative bubbles and potential for drastic price changes, may thus be seen as violating this principle (Ahmed 2023).

A cornerstone of Islamic finance is the requirement that financial transactions be backed by tangible assets,

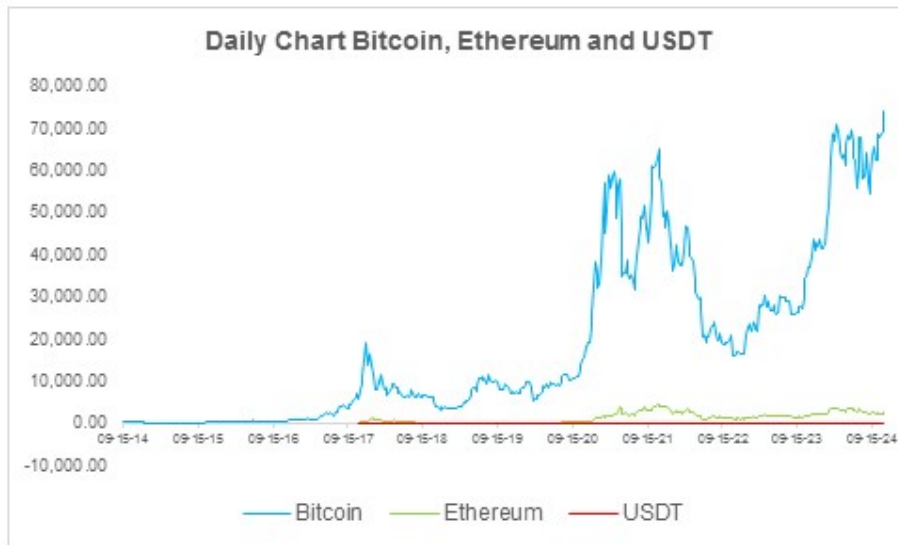
ensuring that economic activities reflect real-world value (Khalidin 2023). Cryptocurrencies lack intrinsic or physical backing, as their value is derived from market demand on blockchain networks rather than from tangible assets (Marin 2023). This absence of intrinsic value raises concerns regarding their legitimacy as compliant assets under Shariah law. Asset Classification: In Islamic finance, assets are often categorized to determine their compliance. This classification can impact whether a cryptocurrency is considered permissible, as scholars debate whether it should be treated as currency, commodity, or security (Giudici 2020). For example, Bitcoin's decentralized nature and lack of government backing mean it does not fit into traditional categories, making its classification ambiguous. Some scholars argue that cryptocurrency represents a speculative commodity rather than currency, further complicating its acceptance in Islamic finance.

While some scholars reject cryptocurrencies entirely for lacking intrinsic value, others propose conditional acceptance if they can be backed by physical assets or fulfill a genuine economic role (Likitrachoen 2023). Asset-backed digital currencies or stablecoins pegged to fiat or tangible assets represent a potential Shariah-compliant alternative, as they reduce volatility and provide stable value (Nugroho, 2023). Speculation is a major factor in cryptocurrency markets. Unlike traditional assets, cryptocurrency prices are frequently driven by investor sentiment and media hype, leading to high levels of speculation that can resemble gambling. Shariah law prohibits speculative transactions that lack productive economic activity, as they can destabilize economies and promote inequality (Salamon, 2015). Cryptocurrency's price volatility and speculative appeal make it particularly susceptible to *maysir*, as significant portions of trading volume come from speculative rather than utilitarian motives (Kukacka 2023). Some scholars view speculation in cryptocurrency trading as problematic due to its potential for wealth concentration and destabilization. In Islamic finance, wealth should ideally be generated from productive activity rather than speculative trading, which can create social and economic imbalances (Bashir 2010). By implementing safeguards and limiting speculative use cases, proponents suggest that cryptocurrency could achieve a degree of Shariah compliance. While cryptocurrency presents challenges, blockchain technology the decentralized ledger underpinning cryptocurrency aligns with certain Islamic principles. Blockchain's transparency, immutability, and decentralization contribute to trust in financial transactions, resonating with the Shariah emphasis on accountability (Hutagalung, 2023). Blockchain technology records every transaction in an unalterable ledger, reducing the potential for fraudulent behavior and enhancing transparency, which is highly valued in Islamic finance (Truby 2022). Blockchain's ability to create a decentralized financial environment aligns with Islamic finance's preference for asset-backed, equity-focused transactions over debt-based systems. By eliminating intermediaries and facilitating direct asset transfers, blockchain technology can support fairer economic transactions. However, for blockchain to align with Shariah, its use must be free of speculation, ensuring that transactions uphold ethical wealth creation. In response to demand for compliant digital assets, new models such as stablecoins and asset-backed cryptocurrencies have emerged. Stablecoins are digital assets pegged to fiat currency or tangible assets, offering reduced volatility and greater stability. This stability aligns better with Shariah, as it minimizes *gharar* and creates intrinsic value (Grobys, 2021). For instance, Tether and other USD backed stablecoins have less price volatility, providing potential for Shariah-compliant applications in Islamic finance (Zakhiri, 2022). Asset-backed cryptocurrencies, tied to commodities like gold, offer another avenue for compliance. By creating a direct link to tangible assets, these cryptocurrencies can meet Shariah requirements for backing, while also offering the benefits of blockchain transparency. These models suggest that with thoughtful design, digital assets can be created to align with Islamic finance principles (Abdeldayem, 2020). The Islamic finance community remains divided regarding cryptocurrency's permissibility. Prominent scholars, including Muhammad Taqi Usmani, assert that cryptocurrencies are non-compliant due to the speculative risks and lack of intrinsic value, warning that they may lead to unjust wealth redistribution (Muhammad & Usmani, 2020). Conversely, other scholars argue that cryptocurrency could be permissible if used as a digital currency and free from speculative motives. Wronka (2024) suggest that, if applied responsibly, cryptocurrency could serve as a legitimate medium of exchange, especially in economies with limited access to traditional banking. Some scholars propose a cautious approach, permitting cryptocurrencies only if they are asset-backed and used with minimal speculation. This approach underscores the need for ongoing discourse and research, as technological advancements may present new Shariah-compliant financial models.

Figure 1 demonstrates the differing characteristics of these three cryptocurrencies: Bitcoin's high volatility and significant price swings, Ethereum's moderate growth and volatility, and USDT's stability. The figure effectively showcases the distinct roles these assets play in the digital financial ecosystem, with Bitcoin and Ethereum often

used for speculative investments, while USDT provides a stable medium of exchange and store of value. This analysis is crucial for understanding price volatility in crypto assets, especially for investors and financial analysts assessing risk in digital asset portfolios.

Figure 1 Volatility Comparison of Major Cryptocurrencies and Stablecoins

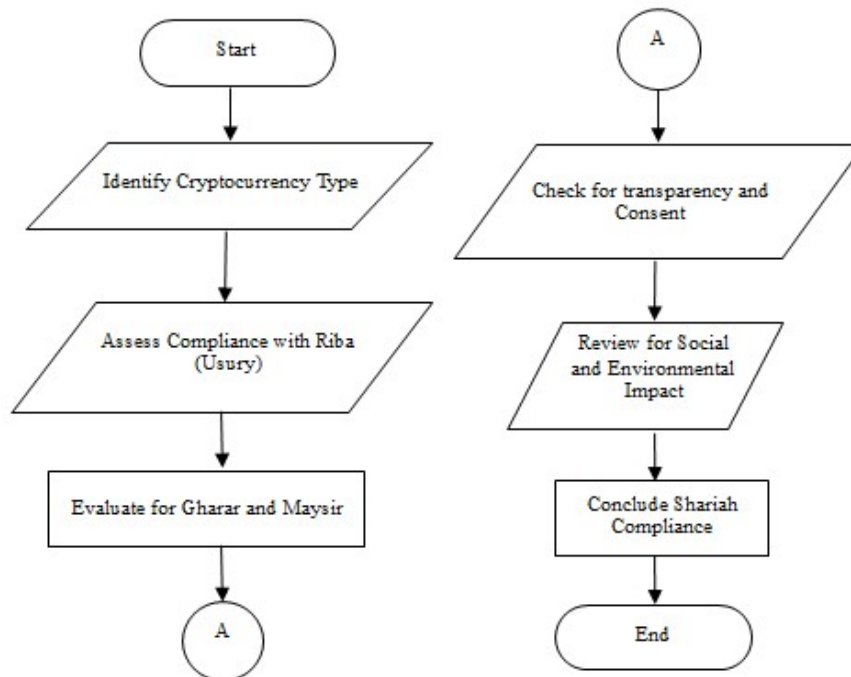


Framework of Muamalat

The concept of *muamalat*, an essential branch of Islamic jurisprudence, encompasses guidelines for economic and commercial transactions in line with Shariah law. As an ethical and justice-oriented framework, *muamalat* emphasizes that financial activities must benefit society, uphold transparency, and avoid exploitative elements (Laldin 2013). With the growing popularity of digital assets such as cryptocurrency, Islamic finance scholars and practitioners are increasingly focused on applying the principles of *muamalat* to evaluate these new financial instruments. Cryptocurrency, in particular, presents unique challenges due to its decentralized nature, high volatility, and speculative appeal. This essay explores the fundamental principles of *muamalat*—such as contract validity, asset classification, risk management, and ethical considerations—as a framework for assessing the compliance of cryptocurrency within Islamic finance.

The first consideration within *muamalat* is the validity of contracts, or *aqd*, which serves as a fundamental basis for all transactions. Islamic finance requires that contracts meet specific criteria to be deemed valid, such as mutual consent, clarity in terms, and the legitimacy of the underlying asset (Fayyad 2023). Ensuring these criteria helps prevent exploitation and guarantees fairness for all parties involved. Cryptocurrency, however, often presents challenges to mutual consent and transparency. While blockchain technology provides a transparent ledger for all transactions, its technical complexity can create a barrier to full understanding, especially for average users (Singh 2023). This lack of clarity could hinder informed consent and, consequently, the validity of the contract under Islamic law. Addressing these transparency issues is essential for achieving Shariah compliance in cryptocurrency transactions, ensuring that all users fully understand the risks and terms involved. Figure 2 shows the framework for shariah compliance of cryptocurrency that aligns with Shariah principles. This framework outlines a step-by-step process to evaluate cryptocurrency under Shariah law: identifying type, assessing for *riba*, evaluating *gharar* and *maysir*, ensuring transparency and consent, considering social and environmental impact, and concluding compliance with Islamic finance principles.

Figure 2 Compliance Framework for Shairah-Compliance of Cryptocurrency



A crucial aspect of contract validity in *muamalat* is the legitimacy of the asset involved. Islamic finance mandates that an asset must possess intrinsic value or represent a legitimate service or commodity, discouraging assets that solely derive value from speculation (Rahmat 2023). Cryptocurrencies, unlike fiat currency backed by government regulation, derive value solely from market demand on decentralized networks. Some scholars argue that this lack of physical backing introduces *gharar*, or excessive uncertainty, which is prohibited in Islamic finance (El-Gamal, 2006). Conversely, asset-backed digital currencies, such as stablecoins pegged to real-world assets, could fulfill the *muamalat* requirements by introducing intrinsic value and reducing speculative appeal. In this way, the legitimacy of the asset becomes a cornerstone for evaluating cryptocurrency in Islamic finance, as only digital assets that represent actual economic value may align with the principles of *muamalat*. Asset classification under *muamalat* further influences the permissibility of cryptocurrency in Islamic finance. Islamic financial assets are categorized based on their physical presence, intrinsic value, and economic contribution, helping scholars determine their compliance with Shariah (Abdulrahman, 2024). There is an ongoing debate among Islamic finance scholars about how to classify cryptocurrency—whether as currency, commodity, or security. If classified as a currency, cryptocurrency would need to meet stability and backing requirements typically fulfilled by fiat currencies supported by government entities. However, the decentralized nature and volatility of cryptocurrency lead many scholars to view it more as a speculative commodity, complicating its classification under *muamalat* (Akbar 2022). This debate highlights the need for clearer asset classification to ensure cryptocurrency aligns with Islamic finance principles.

Risk management is another critical principle in *muamalat*, as Islamic finance prohibits excessive risk or uncertainty, or *gharar*. Transactions should be based on fairness, avoiding opportunities for deception and ensuring informed decision-making. Cryptocurrency's volatile nature presents a significant risk, often resulting in rapid price fluctuations that may lead to substantial financial losses. Within *muamalat*, excessive volatility is perceived as a form of *gharar*, as it introduces high levels of unpredictability that undermine the stability sought in Islamic finance. Scholars argue that only stable or asset-backed cryptocurrencies may meet Shariah requirements, as they offer some degree of value backing and reduce the exposure to drastic price swings. By focusing on stablecoins or digital assets with intrinsic value, the risks associated with *gharar* may be minimized, providing a more compliant pathway for cryptocurrency within Islamic finance.

In addition to volatility, the speculative nature of cryptocurrency markets raises concerns about *maysir*, or gambling, which is prohibited in Islamic finance. Speculative behavior, where profit is based on market fluctuations rather than productive economic activity, is viewed as a form of gambling and conflicts with the

ethical wealth creation goals of Islamic finance (Poon 2020). Islamic finance seeks to generate wealth through genuine economic contributions rather than market timing or luck. The speculative appeal of cryptocurrency often leads to artificial inflation and market bubbles, which may contradict Islamic principles of fair wealth distribution and social justice (Rabbani 2021). Therefore, any use of cryptocurrency in Islamic finance should prioritize stability over speculation, limiting excessive risk to align with the *muamalat* framework.

Beyond risk management, *muamalat* emphasizes ethical responsibility and social welfare, requiring that financial transactions contribute to societal well-being and avoid harmful practices. Cryptocurrency's potential for financial inclusion aligns with Islamic finance's social justice objectives, as it can provide financial services to unbanked populations and foster economic independence (El Hajj 2024). However, this benefit is counterbalanced by potential exploitative practices, such as high transaction fees and volatility, which could harm vulnerable individuals. By focusing on stablecoins or regulated digital asset platforms, Islamic finance can leverage cryptocurrency's inclusivity while ensuring ethical practices that align with *muamalat*.

The environmental impact of cryptocurrency mining also raises ethical concerns within *muamalat*. Islamic principles encourage environmental stewardship, as the Earth is considered a divine trust (Winotoatmojo 2024). Mining-intensive cryptocurrencies, such as Bitcoin, consume significant energy resources, which contributes to environmental degradation. This conflicts with Islamic values of sustainability, which prioritize responsible use of resources. To address this, Islamic finance could focus on supporting cryptocurrencies that employ environmentally friendly technologies, such as proof-of-stake models, which are less energy-intensive and thus more compatible with Islamic ethical standards. Regulation within Islamic finance also plays a crucial role in applying *muamalat* principles to cryptocurrency. Shariah supervisory boards, which oversee Islamic finance products, provide guidance on compliance, ensuring that financial instruments align with Islamic principles (Md Safiullah 2024). Given cryptocurrency's novelty and complexity, similar oversight would be beneficial to develop Shariah-compliant cryptocurrency models. By establishing guidelines that prioritize stable, asset-backed cryptocurrencies and discourage speculative trading, supervisory boards can facilitate ethical and compliant cryptocurrency use in Islamic finance (El-Gamal, 2006). Regulatory frameworks that address volatility, speculation, and environmental concerns offer a more structured approach to integrating cryptocurrency into the *muamalat* framework.

Muamalat provides a robust framework for evaluating cryptocurrency within Islamic finance. Through principles of contract validity, asset classification, risk management, and ethical responsibility, *muamalat* enables scholars to assess the compliance of digital assets with Shariah. While cryptocurrency's volatility, speculative appeal, and environmental impact pose challenges, solutions such as stablecoins, asset-backed tokens, and regulatory guidelines offer pathways to alignment with Islamic finance principles. As digital assets continue to evolve, ongoing research and collaboration between Islamic finance scholars, regulators, and technology experts will be essential to ensure that cryptocurrency can serve as an ethical and Shariah-compliant financial instrument.

CONCLUSION

The integration of cryptocurrency within Islamic finance presents both promising opportunities and profound challenges. By applying the principles of *muamalat*, or Islamic commercial law, this study has highlighted the requirements for Shariah compliance—emphasizing contract validity, asset legitimacy, risk management, and ethical considerations. Although blockchain technology supports transparency, cryptocurrency's volatility and speculative appeal can introduce elements of *gharar* (excessive uncertainty) and *maysir* (gambling), which conflict with Islamic finance's ethical standards. Asset-backed cryptocurrencies, particularly stablecoins tied to tangible assets, demonstrate one potential pathway toward aligning digital assets with Shariah values by reducing volatility and adding intrinsic value. Moreover, the ethical focus of *muamalat* underscores the need for financial instruments that contribute to social welfare and environmental responsibility. While cryptocurrency has the potential to enhance financial inclusion, its energy-intensive mining processes and volatility raise questions about sustainability and risk. For cryptocurrency to be truly Shariah-compliant, Islamic finance institutions may need to adopt regulatory frameworks that support responsible use, minimize speculation, and promote asset-backed models. In conclusion, the principles of *muamalat* provide a robust framework for assessing cryptocurrency within Islamic finance. Continued research, innovation, and collaboration among scholars and technologists will be essential for developing Shariah-compliant digital assets that uphold Islamic ethical standards, ensuring that cryptocurrency can contribute positively to a just and sustainable financial system.

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