

# Cryptocurrency Transactions in the Perspective of Islamic Economic Law

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## Abstract

The advancement of the digital era which is increasingly widespread and commonplace has encouraged a shift in transactions that makes various transactions easier. Modern innovation in the digital era has expanded payment methods beyond the traditional use of cash and current accounts (non-physical). Many people utilize cryptocurrency as digital money, but there are unavoidable pros and cons to this technology based on the blockchain protocol. Various arguments have been put forward for and against cryptocurrencies in Indonesia. One argument is that this does not adhere to standard practices for transactions and currencies. Another argument is that the Indonesian government has firmly stated that Bitcoin and similar virtual currencies are not legal tender in the country. The widespread use of digital money in people's lives requires research and analysis from religious and technology experts considering these events and facts. Bitcoin and other cryptocurrency transactions are considered gharar and dharar from an Islamic economic perspective

**Keywords:** *Crypto; Currency; Transaction; Economic Law;*

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## Introduction

The progress of the digital era which is increasingly widespread and commonplace has encouraged a shift in transactions which makes various economic transactions easier for all people who use smartphone media. The internet has made it easier for everyone to carry out transactions anytime, anywhere. According to Musnaini, Suherman, Wijoyo, & Indrawan (2020) digital technology is technology that no longer uses human or manual labor. But it tends to be an automatic operating system with a computerized system or a format that can be read by a computer. And has built and produced everything the world needs. Transaction activity is relatively low compared to previous times. In the past, individuals could only conduct business using a barter system, which involved exchanging products and services with each other, rather than money. Society during the agricultural period began to form a trading system based on exchanging goods with each other, and this barter system emerged during that period. Products such as agricultural goods, handicrafts, etc. can be traded through a barter system.

Modern innovations in the digital era have expanded payment methods beyond the traditional use of cash and current accounts. The emergence of cryptocurrencies has also given birth to a new monetary system. Decentralized and secured with cryptography, cryptocurrencies are digital or virtual money that do not fall under the jurisdiction of any bank or government. Blockchain, a distributed ledger system that records transactions using cryptocurrency, is a network of interconnected computers that operate independently of any one entity. With no regulatory body overseeing transactions, blockchain technology's decentralized design ensures that all records are secure and transparent.

The different types of cryptocurrencies are defined by the features and benefits they offer, and there are a variety of applications for cryptocurrencies. For example, there are cryptocurrencies that are primarily intended to be used as a means of exchange, and there are others that function as investment vehicles or simply as stores of value. Bitcoin is the most famous cryptocurrency. This was the first and is still widely used today. The involvement of banks or other intermediaries is not required in Bitcoin transactions between users. Assuming a country's official recognition of cryptocurrencies, cryptocurrencies can be used anywhere in the world. Cryptocurrency is a controversial topic in Indonesia. The majority of people have a positive view of certain regulations, such as *PERBA* No.7 of 2020 which determines what cryptocurrencies can be traded on the physical crypto asset market and is issued by the Commodity Futures Trading Supervisory Agency (*BAPEPTI*). The number of crypto assets is 229. Official records show that there are 299 crypto assets that can be traded in Indonesia. But there are also those who are pessimistic; in certain countries, the government does not give official approval on the grounds that it violates the law, while financial authority institutions do not prohibit it, especially when viewed from the perspective of Islamic law.

**Current Phenomenon** The use of cryptocurrency is increasingly widespread in Indonesia, this can be seen from the increasing number of cryptocurrency users. According to data from Bappebti, as of July 2022, there were 15.11 million cryptocurrency investors in Indonesia. This number increased by 12.2 million from 2021. Various types of cryptocurrencies traded: Currently, there are more than 10,000 types of cryptocurrencies traded worldwide. In Indonesia, several popular cryptocurrencies include Bitcoin, Ethereum, and Tether. The emergence of cryptocurrency trading platforms. More and more platforms offer cryptocurrency trading, such as Indodax, Tokocrypto, and Binance. Cryptocurrency is used for various investment purposes, and for payment transactions, such as buying goods and services, even for charity.

Cryptocurrency still has pros and cons because of its legality and high risk and high volatility. In fact, quite a few investors dare to use crypto as an investment. Inevitably, in its development, cryptocurrencies continue to increase in type and number. As of November 2022, there are 9,3581 types of cryptocurrency that can be used as investment instruments.

Of that number, ten cryptocurrencies namely Bitcoin (BTC), Ethereum (ETH), Thether (USDT), BNB, Binance USD (USDC), XRP, Cardano (ADA), Dogecoin (DOGE) have the largest market cap. Bitcoin, for example, on November 12 2022 at 10.10 WIB has a market cap of US\$ 324.52 billion, following Ethereum which has a marker cap of US\$ 156.34 billion.

**Problem Formulation** Regarding Cryptocurrency Transactions Along with the widespread use of cryptocurrency, several problem formulations have emerged that need to be studied, including: Unclear legal status of cryptocurrency in Indonesia. Currently, there are no regulations that clearly regulate cryptocurrency in Indonesia, as well as unclear legal status from legal perspectives. Islam. This raises concerns about the legality and security of cryptocurrency transactions.

## **Research Methods**

This research has a qualitative tendency because it is based on library materials. This descriptive-analytic research uses a normative juridical framework to study Islamic law. According to Soerjono Soekanto, the normative juridical approach is legal research carried out by examining library materials or secondary data as a basis for research by conducting searches of regulations and literature related to the problem being studied<sup>1</sup>. This research data comes from various sources, including the Koran, Muhammad's sayings (hadith), and various interpretations of Islamic law and legal theory, as well as scientific articles and other reference materials.

## Results And Discussion

### A Brief History of Cryptocurrency Development

The evolution of cryptocurrencies, sometimes known as digital currencies, has spanned decades. David Chaum, in the 1980s, laid the foundation for what would become Bitcoin using a technology he created called eCash. The first system that laid the foundation for Bitcoin did so by securing transactions using cryptography. One of the first examples of digital money was eCash, which Chaum introduced in the 1990s. Laurie Law, Susan Sabett, and Jerry Solinas also released papers on anonymous electronic money cryptography at about the same time; this article goes into more detail about digital currencies.

Bitcoin, founded in 2009 under the pseudonym Satoshi Nakamoto, was the first cryptocurrency. The first Bitcoin transaction occurred in 2008, but the cryptocurrency's popularity skyrocketed in 2010 and it was soon accepted by a large number of online retailers. Dogecoin, Litecoin, Ripple, and Ethereum are some of the other cryptocurrencies that have emerged due to the popularity of Bitcoin; These altcoins serve different purposes and have unique characteristics. One of the first reactions to the rise of cryptocurrencies in Indonesia was skepticism; in 2014, the central bank issued a statement banning cryptocurrency payments. But as time goes by and technology advances, banks have become more accommodating, and in 2018 they passed a law that, under certain conditions, allows the use of cryptocurrencies in Indonesia.

Many people in Indonesia invest and trade cryptocurrencies such as Bitcoin, Ethereum, and Cardano, and their use continues to increase. Cryptos may be small compared to international markets, but they play an important role in country budgets, and many people see them as an opportunity to diversify their portfolios and perhaps make more money. The cryptocurrency market has grown substantially since its inception in the 1980s, with the introduction of innovative tools and services such as Nanovest . The importance of cryptocurrencies in the global financial system is expected to increase as the market grows and new entrants enter it on a regular basis.

The gains show that Bitcoin has the ability to make a lot of money, but there are also many risks associated with investing in it. Highly unpredictable Cryptocurrency features allow very rapid price fluctuations. High volatility, as used here, is a measure of the danger investors face. It is impossible to estimate the potential danger in the Bitcoin market because historical price is the only element that influences volatility. The value of cryptocurrencies may rise or fall drastically; its volatility is unmatched. As a result, Bitcoin is not a practical investment tool.

Cryptocurrency in Indonesia *Rupiah (Rp)* is the de jure currency in Indonesia, but because there is no organization governments that officially recognize Bitcoin as a commodity or medium of exchange, it is up to individuals or groups to recognize it. There are a number of different types of transactions that can benefit from using cryptocurrency for transaction operations. Like when people buy and sell fiat currency on the exchange market in exchange for Bitcoin and other cryptocurrencies. After that, we will move on to crowdsourcing initiatives aimed at lowering transaction costs, particularly for individual spenders in locations that accept cryptocurrency as payment. Users of these cryptocurrencies should be aware that the government does not have any control over the security of their transactions, so they must assume any associated risks.

Authorities, including Bank Indonesia, need to be aware of the increasing number of public transactions using Bitcoin as a payment method. This situation must be addressed immediately so that a clear regulatory framework can be formed, especially because the Financial Services Authority has taken over some of Bank Indonesia's supervisory authority. Besides the fact that Bitcoin's security is still a matter of debate and there is no official

sanction for its use, society urgently needs a regulatory framework adapted to Bitcoin to prevent any negative impacts. 2.

The Indonesian government has banned Bitcoin investments made through Bank Indonesia in an effort to curb public involvement in Bitcoin transactions and investments, raising questions about the cryptocurrency's legitimacy in the country. Bitcoin and other virtual currencies are not recognized as legal means of payment in Indonesia, in accordance with Article 1 paragraph (1) of Law Number 7 of 2011 concerning Bank Indonesia Currency. Therefore, its use as payment in Indonesia is illegal. In accordance with the rules contained in Law no. 7 of 2011 concerning Currency, which regulates that the Rupiah must be used in all financial transactions that occur in the territory of the Unitary State of the Republic of Indonesia, as well as in all transactions involving payments or other monetary obligations. 3The Indonesian Central Bank said in 2014 that digital currencies such as Bitcoin were not permitted to be used as currency. In connection with this, Wimboh Santoso also prohibited anyone related to the banking industry from trading Bitcoin or providing Bitcoin-based transaction services. Parties who facilitate Bitcoin transactions, including financial institutions and payment processors, will be subject to heavy sanctions from Bank Indonesia.

Bank Indonesia Regulation Number 18/40/PB1/2016 concerning Implementation of the Payment Transaction Process explains this in Article 34 of the regulation. "Payment System Service Providers are prohibited from: a) processing payment transactions using virtual currency." Bitcoin is specifically mentioned as a virtual currency that is illegal to use as payment in Indonesia in the explanation of this article. Payment System Service Providers who violate this rule will be subject to administrative sanctions as outlined in Article 35 paragraph (1), specifically: a ) warning; b) fine; c) temporary suspension, suspension of part or all of business activities related to payment systems; and/or d) permission as a payment system operator.

You should think twice before making a Bitcoin transaction because of how speculative it is (in terms of its value). The value of a cryptocurrency is directly proportional to the number of individuals and organizations willing to accept Bitcoin as payment. The value of cryptocurrency will increase as long as its user base increases. On the other hand, a price decrease is likely to occur if supply decreases. This is due to the fact that several state regulatory bodies have opposed cryptocurrencies and some have even banned their physical use. Additionally, digital currency businesses may face exclusion from banking services offered by banks that do not handle cryptocurrencies.

Despite these issues, there is still a lot of room for Bitcoin growth in Indonesia, especially if the country shifts its attention from Bitcoin to Blockchain. Indonesia's central bank has pledged to devote more resources to researching blockchain technology. The Indonesian government has not made an official statement regarding this, but many feel that blockchain technology has the potential to advance business in Indonesia, especially the financial sector. Because the Indonesian financial system is now vulnerable to crises that weaken the community's economy, Blockchain technology is expected to play an important role in its growth. Quantitative research data also shows that adding Bitcoin investment to Indonesia's official investment range will increase the country's BOP due to the official registration of the cryptocurrency.

#### **Cryptocurrency Viewed by Islamic Law**

It is true that cryptocurrencies have enormous potential, starting from its advantages, ease of transactions, and even its disadvantages, which may be the reason for its rise in popularity. In fact, one party can get something from every muamalat transaction that benefits everyone. It turns out that there are many detrimental aspects to using cryptocurrency as digital money, especially when carrying out online transactions. Due to its potential negative impact on users, the existence of cryptocurrency poses a serious risk which

is contrary to the teachings of the Islamic religion which states that detrimental muamalat transactions must be stopped, as stated in several verses of the Koran. Basic matters relating to people's welfare, for example, include printing money and determining its nominal value. The community's economy and its profits will suffer greatly due to careless issuance of money. Loss of confidence in currency, the possibility of currency counterfeiting, an increase in the money supply and a decrease in its value (inflation), and losses that must be borne by individuals on fixed incomes as a result of these events are potential possibilities. harm.

Apart from the issuance of money, which originates from Islamic law, the issue of muamalah covers all commercial and transactional transactions between people. Even though the initial legality of economic transactions is considered halal, this may turn out to be haram if other considerations are taken into account. This first rule is known as haram lidzatihi, and it states that the product being exchanged is haram. The second law is similar, but specifies other types of unlawful transactions. The second rule is haram lighairihi, which indicates haram for reasons unrelated to the purpose of the transaction.

It is true, these regulations provide an understanding that people must refrain from taking actions that harm themselves or others; After all, religious mandates are established for the benefit of humanity as a whole, and religious prohibitions must be fully enforced to prevent various types of mafsadat (damage). All laws mentioned in Islamic sharia are based on this fundamental idea. So, it is very important to continue to look for ways to help others and do good, while avoiding madharat and mafsadat in any way. Therefore, we must prioritize a careful mindset, especially when using goods, to mitigate some of the risks associated with digital money (Cryptocurrency).

Ulama discuss cryptocurrency law by referring to the principles of Islamic sharia contained in the Koran and hadith. Based on sharia principles, some scholars argue that cryptocurrency transactions are haram. The reason is that cryptocurrency contains elements of gharar, maisir, and has the potential to be used for illegal activities. However, there are also scholars who argue that cryptocurrency laws are permissible under certain conditions. These conditions include; Cryptocurrency transactions must be protected from gharar, maisir and usury, Cryptocurrency must be used for things that are halal and not haram. There are clear regulations from the government to regulate cryptocurrency transactions.

Considering the above, it is clear that Bitcoin is not a legal tender or issued by a state-owned enterprise. As for its validity, we can see the Bank Indonesia Regulations, especially PBI 18/40/PBI/2016 concerning Payment Transaction Processing and PBI 19/12/PBI/2017 concerning Financial Technology which states that as the authority that supervises the payment system, Bank Indonesia prohibits any financial institution in Indonesia, whether banks or not, to provide services related to payment systems, including clearing, final settlement, electronic wallets, electronic wallets, fund transfers, and payment gateways. Another factor is the madharat side, which is usually more important than the benefits of using it as a commodity or medium of exchange. This can occur due to the danger of security gaps, especially if criminal activity or misuse of Bitcoin transactions occurs. Worse yet, if the transaction falls to an unreliable third party, then the individual or community carrying out the Bitcoin transaction will be the one who suffers the consequences. Everything that is syubhat must be abandoned, including Bitcoin, which is used as a payment method, especially in virtual financial transactions.

Legal analysis of the Bitcoin case reveals that cryptocurrency transactions contain elements of gharar or uncertainty regarding the quantity and quality of the goods purchased. Bitcoin is essentially a virtual currency, but its sale is illegal due to its transparent price. The problem with the Bitcoin exchange rate is that it is based on public opinion, which is influenced by the advertising system, and not on external variables such as import and export prices. This transaction has an illegal aspect due to the absence of an underlying asset,

causing the Bitcoin exchange rate to fluctuate drastically. Therefore, using Bitcoin for business purposes is analogous to betting. What we call the "maysir element" is this. Therefore, there are other considerations apart from these substances which make the use of crypto money such as Bitcoin as a payment method for investments and commercial transactions completely haram. 8.

The emergence of much-needed legal fatwas has been significantly influenced by the increasing importance of technology and information among society. Looking at the many legal fatwas from various points of view, such as legal principles that have been compiled by previous academics by analyzing the similarities in 'illat law, it was revealed that they did not agree on its stance. Therefore, the Qur'an and Sunnah provide one solution to the problem of inadequate legal norms. The Rupiah is the officially recognized currency in Indonesia. Responsibility for any and all use of cryptocurrency, whether as a medium of exchange or commodity, lies with each person or group. While it is true that governments have not banned digital currencies outright, community members and users should be warned that they alone are responsible for any security issues related to their use. Since the government has no interest in the cryptocurrency market, it makes sense that the government would remain neutral in the event of negative events or illegal activities involving cryptocurrencies.

## **Conclusion**

The explanation and analysis of Bitcoin transactions above, when viewed from the perspective of Islamic economic law, allows us to draw several conclusions, such as, Further research is needed to determine the exact nature of the legality of cryptocurrencies because they are digital currencies. a financial transaction system that basically uses relatively new technology. deeper, but not intrusive. Even though the Indonesian government has not officially recognized cryptocurrency, its use remains legal. However, the value of Bitcoin can fluctuate wildly and unpredictably, so investing in it is fraught with danger. Apart from that, Bitcoin has not been officially recognized in Indonesia as a payment method or investment vehicle by *Bank Indonesia (BI)*. This is because BI is not responsible for any problems that may arise as a result of using Bitcoin. intercompany transactions. Transactions with Bitcoin and other cryptocurrencies are considered gharar from an Islamic economic perspective because of the lack of clarity in quantity and quality. The Indonesian Ulema Council declared Bitcoin and its use as a medium of exchange haram because it is haram and gharar. and dharar. The lack of clarity regarding who owns it, the fact that no one can verify the legitimacy of the transaction.

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