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# ISLAMIC BANKING IN IRAN: HOPES AND CHALLENGES OF BEING FREE FROM USURY

**Meirison[1*)], Ilman Nasution[2)], Alaa Mustafa Abdel- al-Maqsoud Abu Ajeela[3)], Darmaiza[4)], Muchlis Bahar[5)]**

[1,2,4,5]UIN Imam Bonjol Padang, Indonesia
[3]Faculty of Commerce (Boys), Al-Azhar University, Egypt

e-mail: meirison@uinib.ac.id[1*)]; ilmannasution@uinib.ac.id[2)]; alaa_moustafa@azhar.edu.eg[3)]; darmaiza@uinib.ac.id[4)]; muchlisbahar@uinib.ac.id[5)]

## Abstract

*Usury is a criminal offense punishable by Law in Iran, based on Islamic Sharia. The Iranian Constitution explicitly prohibits Usury, and Article 595 of the Islamic Penal Code criminalizes both lenders and borrowers, imposing penalties including imprisonment, fines, and lashing. The purpose of this regulation is to establish a link between banks and the market and to direct funds to the real sector of the economy to achieve development, productivity, and job creation, thus allowing funds to flow directly to producers and traders and circulate in the actual goods market. However, financial institutions continue to use traditional interest-based methods, and a decision by the Monetary and Credit Board allows monthly "pre-profit" payments to depositors, effectively eliminating the concept of interest-free banking. Pre-profit is distributed before the bank uses its funds for products or business partners, incurring monthly expenses for the bank even before financing activity begins. Consequently, the cost of capital increases as interest rates rise. In writing this article, we conducted a literature review using a qualitative approach and descriptive explanations. We found discrepancies between anti-usury laws and banking practices in several areas, despite considerable efforts and determination to avoid Usury. Funds available in banks are sometimes not circulated in the production sector, remaining more consumptive and diverted to speculative markets, leading to inflation and bank failure. Banking laws and their role must be revised to directly engage with production factors, which are overseen by the Fiqh Council of the central bank and state-owned banks.*

**Keywords:** *Banking; Challenges; Islamic; Īrān; Usury*

## Abstrak

*Riba adalah tindak pidana yang dapat dihukum berdasarkan hukum Syariah Islam di Iran. Konstitusi Iran secara eksplisit melarang riba, dan Pasal 595 KUHP Islam mengkriminalisasi baik pemberi pinjaman maupun peminjam, dengan hukuman termasuk penjara, denda, dan cambuk. Tujuan peraturan ini adalah untuk membangun hubungan antara bank dan pasar serta mengarahkan dana ke sektor riil ekonomi untuk mencapai pembangunan, produktivitas, dan penciptaan lapangan kerja, sehingga memungkinkan dana mengalir langsung ke produsen dan pedagang serta beredar di pasar barang sebenarnya. Namun, lembaga keuangan terus menggunakan metode berbasis bunga tradisional, dan keputusan Dewan Moneter dan Kredit mengizinkan pembayaran "pra-keuntungan" bulanan kepada deposan, yang secara efektif*

* Corresponding author: meirison@uinib.ac.id

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*menghilangkan konsep perbankan bebas bunga. Pra-keuntungan didistribusikan sebelum bank menggunakan dananya untuk produk atau mitra bisnis, sehingga menimbulkan biaya bulanan bagi bank bahkan sebelum aktivitas pembiayaan dimulai. Akibatnya, biaya modal meningkat seiring dengan kenaikan suku bunga. Dalam penulisan artikel ini, kami melakukan tinjauan pustaka menggunakan pendekatan kualitatif dan penjelasan deskriptif. Kami menemukan ketidaksesuaian antara undang-undang anti-riba dan praktik perbankan di beberapa bidang, meskipun telah dilakukan upaya dan tekad yang besar untuk menghindari praktik riba. Dana yang tersedia di bank terkadang tidak beredar di sektor produksi, melainkan lebih bersifat konsumtif dan dialihkan ke pasar spekulatif, yang menyebabkan inflasi dan kegagalan bank. Undang-undang perbankan dan perannya harus direvisi agar secara langsung terlibat dengan faktor-faktor produksi, yang diawasi oleh Dewan Fiqih bank sentral dan bank-bank milik negara.*

***Kata Kunci:*** *perbankan; tantangan; Iran; anti riba*

## مستخلص

الربا جريمة جنائية يعاقب عليها القانون في إيران، استناداً إلى الشريعة الإسلامية. يحظر الدستور الإيراني الربا صراحةً، وتُجرّم المادة 595 من قانون العقوبات الإسلامي كلاً من المُقرضين والمُقترضين، وتفرض عقوبات تشمل السجن والغرامات والجلد. يهدف هذا التنظيم إلى ربط البنوك بالسوق وتوجيه الأموال إلى القطاع الحقيقي للاقتصاد لتحقيق التنمية والإنتاجية وخلق فرص العمل، مما يسمح بتدفق الأموال مباشرةً إلى المنتجين والتجار وتداولها في سوق السلع الفعلية. مع ذلك، لا تزال المؤسسات المالية تستخدم أساليب الفائدة التقليدية، ويسمح قرار صادر عن مجلس النقد والائتمان بدفع "أرباح مسبقة" شهرية للمودعين، مما يُلغي فعليًا مفهوم العمل المصرفي الخالي من الفوائد. تُوزّع الأرباح المسبقة قبل أن يستخدم البنك أمواله في المنتجات أو شركاء الأعمال، مما يُكبّد البنك نفقات شهرية حتى قبل بدء النشاط التمويلي. ونتيجةً لذلك، ترتفع تكلفة رأس المال مع ارتفاع أسعار الفائدة. في كتابة هذه المقالة، أجرينا مراجعة للأدبيات باستخدام منهج نوعي وشروح وصفية. وجدنا تباينات بين قوانين مكافحة الربا والممارسات المصرفية في عدة مجالات، على الرغم من الجهود الحثيثة والعزم على تجنب الربا. ففي بعض الأحيان، لا تُعاد تدوير الأموال المتوفرة في البنوك في قطاع الإنتاج، بل تبقى في الغالب استهلاكية وتُحوّل إلى أسواق المضاربة، مما يؤدي إلى التضخم وإفلاس البنوك. لذا، يجب مراجعة القوانين المصرفية ودورها لتتفاعل بشكل مباشر مع عوامل الإنتاج، التي يشرف عليها مجلس الفقه التابع للبنك المركزي والبنوك المملوكة للدولة.

**الكلمات الرئيسية:** الخدمات المصرفية؛ إيران ؛ تحديات ؛ تخلص عن الربا

## A. Introduction

The Free Banking (Riba) Law, ratified by the Guardian Council in September 1983, encompasses various goals and roles relevant to the banking system in Īrān, including compliance with Islamic Law (Fiqh) and the prohibition on interest-based loans.

. This applies to all forms of lending, regardless of the currency in which the loan is granted. Regulations also address financial operations and banking services within the Free

Trade Zones of the Islamic Republic of Īrān, specifically concerning the prohibition of interest. Under this legislation, foreign currency exchanges take place in areas not subject to Islamic banking rules. However, the rules long ago emphasized by Imam Khomeini do not seem to be functioning as they should. The Free Banking (Riba) Law empowers the Central Bank to intervene in and supervise banking and financial activities in Īrān through the following mechanisms:

Setting minimum and maximum profit margins for banks in joint ventures and speculative ventures (these margins may vary across different business sectors). Allocating specific areas for investment and partnership within the framework of approved economic policies, and setting minimum profit margins for various investment and partnership projects.[1] Minimum profit margins may vary across different business branches. For banks, minimum and maximum profit margins are set, proportional to the cost of goods traded, for transactions related to installment sales or lease-purchase agreements.[2]

The types, maximum, and minimum amounts of commissions for banking services, and the fees levied on deposits received from banks, are defined. Minimum and maximum interest rates are set for joint ventures, profit-sharing agreements, investments, lease-purchase agreements, installment transactions, purchase and sale on credit, futures contracts, and customer deposits across various business areas, and the maximum credit facilities granted to each customer are determined. However, usury practices still occur in disguised loan forms, which are difficult to prevent. Even Iran's largest private banks engage in Usury by raising deposit interest rates, which ultimately leads to bankruptcy.[3] Why can Usury still occur? Is the central bank's role in controlling the banks under its supervision not yet optimal, or does it need intervention from the Fiqh Council (Wilayah al-Faqih)?

In writing this article, we analyzed scientific journals and several books related to the implementation of Islamic monetary instruments in Iran. We analyzed the contents of the library sources and presented them descriptively. Among the books and journals is Challenges of Islamic Banking in Iran's Economy: Focusing on Financial Inclusion by, Pejman Peykani, This paper discusses trust in the Banking System," "Distributive Justice in the Provision of Facilities," "Interests in the Distribution of Profits and Losses," "Moral Risk," "Adverse

[1] Ǧahāngīr Āmūzgār and Ǧahāngīr Āmūzgār, *Iran's Economy under the Islamic Republic* (London: Tauris [u.a.], 1993).

[2] Abbas Mirakhor et al., *Islamic Banking*, Occasional Papers (Washington, D.C.: International Monetary Fund, 1987), doi:10.5089/9780939934829.084.

[3] Asgari Arani Sajjad, masoud Gholam Hossein, and Shekarchizadeh Mohsen, "Usury in Iranian and Egyptian Banks from the Perspective of Jurisprudence and Law" 6, no. 210 (January 1, 2022): 143–63.

Selection," "Payment of Real Returns to Customers," and "Central Bank Supervision" were selected.[4] Other scientific works are Īrān's political economy since the Revolution, by Suzanne Malone, which discusses the price paid to establish a religious state and the extent of Western sanctions' impact on the Islamic state of Īrān across various sectors, including the banking sector.[5] Another book, entitled al-Iqtiṣād al-muqāwim: Īrān min ṣināʿat al-abārīq ilā tiqanīyat an-Nātū, written by Shadiq Nablusi, provides an overview of the economic conditions under pressure that adapt to the difficulties created by the United States and Western countries to build an independent economic system.[6] We also reviewed an article by Husein Ashraf and Ali Alizadeh in the Kuwait chapter of the Arabian Journal of Business & Management Review, which provides examples of efforts to legalize banking in various countries by adapting it to Islamic Law, along with field practices in Īrān and Pakistan. Another source is Sayid Hassan Amin's work, "Islamic Banking and Finance: The Experience of Īrān." He explains the changes that have occurred since the Iranian Revolution in 1979, which have affected the banking law passed by the al-Faqih assembly, finalized in 1983, and implemented in 1984.[7] This also relates to the authority of the Central Bank to control the practices of banks under its supervision, ensuring they are in line with the Law and the decree of Imam Khomeini, which forbade money-making and required it to be invested in the real sector and tangible business results. Based on the theoretical basis (1983 Banking Law) for the elimination of Usury, it prohibits all forms of Usury in savings and loans. It replaces them with profit-sharing and commission mechanisms. Transaction agreements require the use of sharia contracts, such as murabahah (sale and purchase), musharakah (cooperation), and Qardhul Hasan (interest-free loans for social purposes). This is done to emphasize the creation of economic justice and the provision of community services through the lending system.[8]

In writing this article, we employed a library method, collecting books and articles from several journals. These sources were then reviewed qualitatively and described

[4] Pejman Peykani, Amir Hossein Ghaffari Nejad, and Behnaz Varshosaz, "Challenges of Islamic Banking in Iran's Economy: Focusing on Financial Inclusion," in *Islamic Financial Markets and Institutions*, ed. Farhad Taghizadeh-Hesary et al., Contributions to Economics (Singapore: Springer Nature Singapore, 2025), 3–23, doi:10.1007/978-981-96-8650-6_1.

[5] Suzanne Maloney, *Iran's Political Economy since the Revolution*, 1. publ (New York, NY: Cambridge Univ. Press, 2015), doi:10.1017/CBO9781139023276.

[6] أ.د أحمد صبيح عطية, "دور استراتيجية تعويض الاستيرادات في تعزيز القدرات الاقتصادية ..دراسة لتجربة and م.م زهراء علي جبري العقابي جمهورية ايران الاسلامية مع امكانات تطبيقها في العراق," *المجلة العراقية للعلوم الاقتصادية* 23 no. 85S1 (December 30, 2025): 50–58, doi:10.31272/ijes.v23i85.1264.

[7] Seyed Hossein Mirjalili, "Islamic Banking in Iran 2019 ",بانکداری اسلامی در ایران, doi:10.13140/RG.2.2.30048.61446.

[8] Mirakhor et al., *Islamic Banking*.

descriptively. This method involves a multidimensional analysis comparing formal Law with banking operations. The following are the main points of the discussion method:

The discussion begins with an examination of the Law for Usury-Free Banking, which serves as the sole legal basis for requiring the entire banking system in Īrān to operate without interest, such as mudarabah, musharakah, and qard al-hasan, in the interests of economic justice and monetary stability.[9] We also evaluated banking operational practices using existing sources, reflecting how banks implement regulations, specifically those imposed by the central bank on banks under its supervision, in raising capital and financing. Sometimes these practices assisted banks in committing violations, ultimately resulting in mergers or direct control by state-owned banks. This article focuses on the gap between banking regulations and practices that can be addressed to improve the economy. This article focuses on the gap between banking regulations and practices that can be addressed to enable economic growth. The determining factor is the Fiqh Council, as the supervisor of the central bank, government banks, private banks, and banking practitioners.

## B. Discussion

### 1. Interest-free loans: Īrān's step towards establishing Islamic banks

The establishment of interest-free loans in Īrān marked a pivotal moment in the development of Islamic banking and the promotion of financial justice. These banks were established with the fundamental mission of providing interest-free loans to channel people's savings toward meeting society's vital needs in an organized and efficient manner. Before the emergence of these institutions, interest-free loans were limited to small private funds or a narrow component of some commercial bank activities. However, resource fragmentation, weak oversight, and inadequate infrastructure hindered efforts to achieve the desired efficiency.[10]

In the mid-2000s, banking policymakers concluded that establishing fully specialized banks was the path to greater harmonization and transparency. Based on this, Mehr Īrān Interest-Free Bank and Resalat Interest-Free Bank were launched as pioneering experiments in this field. By pooling small, non-profit deposits from individuals, these banks converted them into low-interest or interest-free loans to cover expenses such as marriage, housing, medical

[9] Mohammadreza Mahmoudi, "Identifying the Main Factors of Iran's Economic Growth Using Growth Accounting Framework," 2021, doi:10.48550/ARXIV.2109.02787.
[10] Mirjalili, "Islamic Banking in Iran بانکداری اسلامی در ایران."

treatment, education, and employment. Its primary mission was not profit-making but rather facilitating equitable access to financial resources for various segments of society. This characteristic led to the recognition of interest-free loans as both an economic tool and a social institution. In addition to fostering a culture of cooperation, they helped reduce deprivation and poverty in certain areas of society. They became a model of responsible banking in Īrān.[11]

One of the most significant developments in the history of interest-free loans after the Revolution was the establishment of specialized interest-free loan banks. Before this, interest-free loan services were offered exclusively through commercial banks (along with their other activities) or through private trusts. However, in the mid-2000s, policymakers concluded that banks dedicated solely to interest-free lending would enhance synergy and strengthen the sector. Among the most prominent of these banks, established to unify interest-free loan accounts and funds, are Mehr Īrān Interest-Free Loan Bank and Resalat Interest-Free Loan Bank. Mehr Īrān Qarz-e Hasan Bank was established in December 2007 with an initial capital of $150 million, with the participation of several state-owned banks and the support of the government of former President Mahmoud Ahmadinejad.[12] The core idea behind establishing Mehr Īrān Bank was to consolidate interest-free loan resources into a robust institution and expand interest-free lending services nationwide. Upon its inception, the bank leveraged the existing infrastructure of the participating state-owned banks; its initial network comprised approximately 300 branches of these banks, in addition to 1,700 interest-free loan counters within their branches. Following a reorganization, these branches began operating independently under the name Mehr Īrān Qarz-e Hasan Bank, which today boasts over 500 branches across the country. As the first specialized interest-free loan bank in the Iranian banking system, Mehr Bank has played a significant role in revitalizing the culture of interest-free lending. According to official documents, its mission was:

> "To direct and utilize interest-free loans to secure housing, medical treatment, marriage, education, employment, and other necessities, and to contribute to poverty eradication."

These objectives demonstrate that Bank Mehr was established to centrally gather the disparate resources of interest-free loans and direct them toward meeting the basic needs of various segments of society. Alongside the state-owned Bank Mehr, Qarz-e Hasan Resalat Bank was established shortly afterward as the first private interest-free loan bank in Īrān. This bank traces its roots to the Qarz-e Hasan Resalat Fund, a public fund established in 1997 to promote

11 Ibid.
12 Sayed Hassen Amin, *Islamic Banking and Finance: The Experience of Iran* (Tehran: Vahid Publ, 1986).

the culture of interest-free loans and assist various social groups.[13] During its 15 years of operation, the Fund provided significant services, including granting 540,000 interest-free loans and creating employment opportunities for 910 people.[14] With the Central Bank's directive in the late 2000s to regulate unlicensed financial institutions, the administrators of the Resalat Fund decided to transform it into a formal bank. According to reports, the Central Bank's invitation and the Fund's management's response led to the commencement of the conversion process.[15]

After completing the legal procedures, the bank received initial approval in June 2010, and the Monetary and Credit Council approved its articles of association in February 2011. The subscription process and capital securing were completed during the same year. In August 2012, the Central Bank issued the final license for the commencement of operations of Qarz al-Hasan Resalat Bank, which initially launched with approximately 50 branches.[16]

Resalat Bank placed particular emphasis on providing in-person services and digital banking, eventually becoming known as the first fully digital bank in Īrān.[17] The establishment of these two specialized banks effectively paved the way for the unification of Qarz al-Hasan accounts. In fact, both Īrān's Mehr Bank and Resalat Bank, in their own ways, focused on harnessing the considerable potential of interest-free loans. Mehr Bank, by pooling and sharing the capital of state-owned banks and attracting donations from philanthropists, brought many disparate resources under its umbrella. Meanwhile, Resalat Bank, by transforming private funds into a formal banking entity, set a model for other funds to operate within the Central Bank's regulatory framework.[18]

At the time of Mehr Bank's establishment, reports indicated that more than 500 grassroots interest-free loan funds contributed to its initial founding. From the outset, the bank was designed to be a non-profit institution, operating with shareholder capital and dedicated to promoting the culture of interest-free loans. This demonstrates that the move towards unifying interest-free loan funds was a primary objective for policymakers at the time. As the then-Vice President of the Islamic Economic Organization stated:

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[13] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ايران*, September 7, 2025, https://zaadiran.com

[14] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ايران*, September 7, 2025, https://zaadiran.com

[15] مجدي عبد الهادي, "الاقتصاد الريعي ومنظومة العدالة الاجتماعية في إيران," 2017.

[16] أحمد فاروق عباس محمد عباس, "الاقتصاد الايراني .. الواقع والتحديات," *المجلة العلمية للبحوث التجارية (جامعة المنوفية)* and تامر النجار 0, no. 0 (January 29, 2025): 0–0, doi:10.21608/sjsc.2025.351076.1540.

[17] Amin, *Islamic Banking and Finance*.

[18] Āmūzgār and Āmūzgār, *Iran's Economy under the Islamic Republic*.

The primary aim and function of the interest-free loan bank is to foster harmony and togetherness among interest-free loan resources, ensuring they work according to a cohesive strategy to promote and spread this ethos.[19]

**2. Renewed Growth and Widespread Demand in Recent Decades**

Since the beginning of the second decade of the millennium (2010 onwards), interest-free loan accounts in the Iranian banking network have witnessed remarkable growth, capturing a significant portion of bank resources. Several important factors have contributed to this trend:[20]

**First –** The Decline in the Attractiveness of Interest-Based Deposits at Certain Times:

During the mid-2010s, the government and the central bank regulated interest rates on bank deposits. They were often lower than the inflation rate. Therefore, large depositors no longer found sufficient incentive to place their money in long-term deposits with fixed interest rates, as the returns did not maintain their purchasing power. Under these circumstances, some people preferred to deposit their money in interest-free loan accounts and benefit from advantages such as interest-free loans, rather than holding short-term deposits with limited returns. At the same time, banks have been trying for years to attract liquidity from current accounts to interest-based deposits through instruments such as short-term accounts with daily returns. However, since 2018, this practice has been discontinued under regulatory directives, leading to some of those funds being returned to current accounts or interest-free savings accounts, thereby increasing the share of interest-free deposits.[21]

**Second –** The Growth of a Social Participation Culture: Following the launch of the Mehr and Resalat interest-free banks, public awareness of the philosophy of interest-free loans has increased. These banks have sought to gain public trust by emphasizing their commitment to helping those in need, their non-profit approach, and their nominal administrative fees. For example, Resalat Bank, through its "social banking" slogan and fully digital services, targeted young, educated individuals who value social responsibility.[22]

[19] النجار and عباس, "الاقتصاد الايراني .. الواقع والتحديات."

[20] Mahmoudi, "Identifying the Main Factors of Iran's Economic Growth Using Growth Accounting Framework."

[21] "معلومات حول البنك المركزي بإيران - SESRIC," accessed March 8, 2026, https://www.sesric.org/central-bank-detail-ar.php?c_code=25.

[22] hadeer ahmed, "مشروع حالة العلم: 'فهم العقوبات Egyptian Enterprise-مركز ايجيبشن انتربرايز للسياسات والدراسات الإستراتيجية الاقتصادية على إيران: دراسة استقصائية' ترجمة," *مركز ايجيبشن انتربرايز للسياسات والدراسات الإستراتيجية-Egyptian Enterprise*, October 30, 2025, https://egyptianenterprise.com/2025/10/الاقتصا-فهم-العقوبات-العلم-حالة-مشروع/.

Many customers were attracted to the idea that depositing their money in these banks allows them to preserve their capital while simultaneously enabling the bank to provide interest-free loans to low-income individuals.[23] The prize and prize draw system also continued as an additional incentive, with major commercial banks (such as Bank Melli, Bank Mellat, and Bank Saderat) launching prize programs for interest-free loan accounts each year, offering increasingly attractive prizes to increase public participation.[24]

**Third – The Legal Obligation of Banks to Provide Interest-Free Loans:**

In recent years, both the government and parliament have raised the ceiling on mandatory loans of this type, such as marriage loans, birth support loans, and housing deposit loans. For example, marriage loans have increased over the past decade to more than $1,000 per couple. Banks are obligated to provide a large number of these loans annually, funded by people's interest-free savings deposits. To meet these obligations, banks have had to attract more interest-free deposits and have launched various incentives, such as fee waivers or easier terms for draws and prizes, to encourage people to open these accounts. The result has been rapid growth in the volume of interest-free deposits across the banking network. According to Central Bank statistics, the balance of interest-free savings deposits increased from approximately $3.2 billion in 2020 to approximately $5.5 billion in 2022, doubling in less than 3 years. While a significant portion of this nominal growth is attributable to inflation and currency devaluation, even after accounting for other deposit types, the share of interest-free deposits has increased substantially.

## 3. The Current Status of Interest-Free Loans in the Iranian Banking System

Interest-free loans have become a significant component of Iranian bank deposits. According to the latest available data through the end of 2024, interest-free current and savings loans account for approximately 36.5% of total deposits in Iranian banks.[25] This striking figure demonstrates that, despite decades of economic fluctuations, a substantial portion of people's money remains held in non-interest-bearing accounts. Historically, the combined share of current and interest-free savings loans reached approximately 50% at the beginning of the first decade of the millennium (2000), then declined during the following decade before resuming an upward trend in the 2010s, reaching its current considerable level. Specifically, at the end of

[23] النجار and الواقع والتحديات .. الاقتصاد الايراني", عباس,".

[24] Murat Ustaoğlu and Cenap Çakmak, eds., *The Palgrave Encyclopedia of Islamic Finance and Economics* (Cham: Springer Nature Switzerland, 2025), doi:10.1007/978-3-030-93703-4.

[25] Mahmood Yousefi, Sohrab Abizadeh, and Ken McCormick, "Monetary Stability and Interest-Free Banking: The Case of Iran," *Applied Economics* 29, no. 7 (July 1997): 869–76, doi:10.1080/000368497326525.

2024, current deposits represented approximately 25%, while interest-free savings deposits accounted for about 11.5% of total deposits.[26] An increase in mandatory loans in recent years, such as marriage loans, has also contributed to a rise in the share of interest-free loan facilities. For example, in 2022 alone, more than 1.2 million marriage loans were granted to young couples, totaling several billion dollars, highlighting the critical importance of attracting interest-free loan deposits to banks.[27] From the perspective of distributing interest-free loan resources among banks, specialized banks occupy a prominent position :[28]

> Mehr Īrān's interest-free loan bank reported in its 2023/2024 report that it had assets exceeding $250 million, the majority of which were allocated to micro-interest loans.
>
> Resalat's interest-free loan bank, a private bank, manages a significant portion of interest-free loan resources in the non-governmental sector, granting low-interest loans with administrative fees ranging from 2% to 4% for job creation and entrepreneurship.
>
> In addition to these two banks, some commercial banks also have active interest-free loan funds or departments. For example, Bank Melli Īrān annually holds lottery draws for its interest-free loan accounts, offering substantial prizes. Private banks like Parsian and Ayandeh also offer interest-free loan funds.[29]

4. **In general, interest-free loan accounts in Īrān have acquired a dual role:**

On the one hand, it serves as a financial and economic function, providing banks with an interest-free resource to offer low-interest loans or even to cover part of their liquidity needs. On the other hand, it serves a socio-religious function, promoting the culture of interest-free loans and assisting those in need. It can be argued that Īrān today possesses one of the most extensive interest-free banking systems in the Islamic world, a system rooted in a deeply held popular desire following the Revolution and sustained by continuous government support.[30] The history of the emergence and development of interest-free loan accounts in Īrān after the 1979 revolution reveals a fluctuating but overall successful trajectory in implementing the principles of Islamic banking. This experience has undergone periods of stagnation and others of rapid growth, depending on the prevailing economic and social conditions at each stage. In the early

[26] Nazir Ul Islam, "Murabahah Practices in Islamic Banking of Iran: Challenges and Solutions," in *JETIR*, vol. 5, 2018, https://www.jetir.org/view?paper=JETIR1801211.

[27] Pejman Peykani, Amir Hossein Ghaffari Nejad, and Behnaz Varshosaz, "Challenges of Islamic Banking in Iran's Economy: Focusing on Financial Inclusion," in *Islamic Financial Markets and Institutions*, ed. Farhad Taghizadeh-Hesary et al., Contributions to Economics (Singapore: Springer Nature Singapore, 2025), 3–23, doi:10.1007/978-981-96-8650-6_1.

[28] Munawar Iqbal and Rodney Wilson, *Islamic Perspectives on Wealth Creation* (Edinburgh University Press, 2005), doi:10.3366/edinburgh/9780748621002.001.0001.

[29] Maloney, *Iran's Political Economy since the Revolution*.

[30] Abouzar Nahvi et al., "Portfolio Optimization of Bank Credits with Interval Returns: Empirical Evidence from Iran," *Banks and Bank Systems* 15, no. 4 (December 8, 2020): 49–68, doi:10.21511/bbs.15(4).2020.05.

1990s, interest-free loans were officially introduced into the banking system, and people gradually became familiar with the concept.[31]

Through tools such as lotteries, banks sought to gain their trust and attract their savings. In the first two decades of the new millennium, these popular interest-free loan funds witnessed unprecedented expansion, followed by the government's efforts to regulate and unify them through the establishment of specialized banks.[32] This led to the founding of institutions such as Mehr Īrān and Resalat, which became symbols of the interest-free loan culture and helped channel dormant savings to meet society's urgent needs. Interest-free loan accounts have become a cornerstone of the Iranian banking system, held by millions of Iranians and constituting a significant portion of bank resources.[33]

This success is attributed, on the one hand, to the deeply rooted cultural and religious values of the interest-free loan concept in society, and on the other hand, to policies that skillfully combined material incentives with moral motivations. While maintaining the attractiveness of interest-free deposits remains a constant challenge in an economy burdened by inflation, the Iranian experience has demonstrated that this challenge can be managed through appropriate measures. As a result, interest-free loan accounts have become a well-established financial and social institution, contributing to monetary stability and playing an indispensable role in strengthening social solidarity and financing the needs of the most vulnerable groups.[34]

## 5. Banking Dynamics that Cannot be Separated from Usury

Various efforts by related parties to free themselves from Usury have been made, including by the Fiqh Council, which sometimes faces challenges from the central bank itself, but which ultimately agrees to cooperate. However, the necessary infrastructure for its application was not evenly in place. The subsystems intended to activate the Law and instill a culture of interest-free banking among bank employees were neither prepared nor implemented.[35] Insufficient training was provided to those responsible for granting credit facilities in branches, preventing the proper implementation of the Law. The Law aimed to

[31] Meirison Alizar Sali, "{IRAN} {REVOLUTION}, {ECONOMIC} {STRUGGLE} {AND} {INDEPENDENCE} {UNDER} {THE} {PRESSURE}," *HJSI* 16, no. 1 (September 2019): 54–77, doi:10.24239/jsi.v16i1.530.56-79.

[32] Irwan Thaib et al., "SHARIA INTERNAL RESOURCES: CAPABILITIES TO DRIVE THE SUSTAINABILITY OF ISLAMIC BANKING," *Jurnal Ilmiah Islam Futura* 25, no. 1 (April 25, 2025): 168–203, doi:10.22373/jiif.v25i1.28984.

[33] J. Esposito and R. Ramazani, eds., *Iran at the Crossroads*, 1st ed. 2001 (New York: Palgrave Macmillan US, 2001), doi:10.1007/978-1-137-07175-0.

[34] Nahvi et al., "Portfolio Optimization of Bank Credits with Interval Returns."

[35] Āmūzgār and Āmūzgār, *Iran's Economy under the Islamic Republic*.

connect banks to the market and channel funds into the real sector of the economy to achieve growth, production, and employment, ensuring that funds reached producers and merchants directly and entered the actual market for goods. However, banks continued to operate under the old interest-based system.[36]

Furthermore, a decision by the Monetary and Credit Council allowed monthly payments of "initial profits" to depositors, effectively negating the concept of interest-free banking. These initial profits were paid before the bank utilized its resources with the producer or merchant, creating a monthly cost for the bank even before actual financing began. Consequently, the price of money increased as interest rates rose. From a financing perspective, the bank required borrowers to pay a higher percentage of the depositor's monthly profit (around 3%) as an agency fee for the bank's services. This doubled the cost of money for both the depositor and the borrower.[37]

In contrast, interest-free banking aims to absorb the costs of economic transactions themselves, not the cost of money. Haeri Shirazi quoted Imam Khomeini as saying, upon the enactment of the Law, "Go and make money, not generate profit." However, the reality was the opposite: profiting from money became one of the main problems, unlike profit from trade and permissible production. Nevertheless, not all bank operations are questionable. There are permissible and valid financing options, such as financing home construction through partnership contracts followed by installment sales, or financing car purchases directly in the manufacturer's name. These operations do not contradict Islamic banking principles.

Some Islamic economists criticize conventional banking as an interest-based system whose income depends on "profiting from money." They argue that any internal reform remains superficial and that the solution requires establishing a completely new banking structure. A bank is fundamentally a financial intermediary institution, and there is nothing inherently wrong with this role. The function of banks worldwide is to collect small amounts of money from people and make it available to producers and economic actors. Through this, production and trade are financed. In addition, banks closely monitor the performance and actual flow of

[36] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ایران* September 7, 2025,

[37] Siyāvash Moridi, *The Book of Iran: The Iranian Economy at a Glance* (Tehran: Center for international-cultural studies, 2004).

production and trade. The purpose of this monitoring is to ensure the return of funds and manage risks.[38]

The existence of investment mechanisms demonstrates that a bank can be a financial institution and an intermediary without being inherently interest-based. As a practical example, one can point to the Islamic Development Bank (IDB), established by 53 Islamic countries and operating entirely on an interest-free basis. This bank financed development projects in member states, including pre-revolutionary Īrān, entirely on an interest-free basis. Numerous Islamic banks worldwide operate in accordance with Sharia law and in a permissible manner. Their business model is based on profit-and-loss sharing, meaning they finance institutions and individuals and take a share of the actual profits generated in the real world.[39]

Iranian economic expert, Ridho Misbahi, said, "Personally, we became familiar with the Islamic Bank of Jordan's activities in 1973-1974 and reviewed its written performance reports.[40]" This bank operated entirely correctly and legitimately, and its operations contained no issues of Usury or money creation. Therefore, we conclude that Islamic banking is possible and that the nature of banks does not necessarily require the payment of interest (riba).[41]

In the Seventh Development Plan, a clause obligates banks to increase their capital adequacy. Given the expansion of banking activities, accumulated losses, and the lack of transparency in some financial statements, is this clause practically feasible, or is it merely an idealistic goal difficult to achieve in reality? Yes, this policy is entirely feasible, but it is contingent upon a fundamental condition: banks must be practically sound and possess sufficient capital to carry out the financing process. Currently, the capital adequacy ratio in the Iranian banking system is 8%, while international standards require approximately 18%. This ratio was gradually raised in two phases following the global financial crisis, which originated in the housing sector: first, the minimum capital adequacy requirement was raised to 12%, and then to 18%.[42]

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[38] Hossein Meisamy and Hamid Zamanzadeh, "Shariah Compliant FX Swap: An Islamic Instrument for Central Bank Policy Making in Iran," *Turkish Journal of Islamic Economics* 7, no. 1 (February 15, 2020): 43–66, doi:10.26414/A072.

[39] Maloney, *Iran's Political Economy since the Revolution*.

[40] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ايران* September 7, 2025, https://zaadiran.com/

[41] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ايران* September 7, 2025, https://zaadiran.com/

[42] mforki, "البنوك الإسلامية بين النظرية والتطبيق رسالة لنيل دبلوم الماستر في القانون الخاص," *مجلة القانون والأعمال الدولية* April 27, 2015, https://www.droitetentreprise.com/2-البنوك-الإسلامية-بين-النظرية-والتطبي/.

Therefore, the current international standard considers an 18% capital adequacy ratio to be the minimum foundation for a bank to operate and maintain a healthy, sustainable presence in the financial market. Does the Central Bank's Sharia Council have sufficient authority to compel banks to implement interest-free banking, or is intervention by other regulatory bodies necessary? Yes, it does, but it is a difficult task. What does this mean? It means you have an aircraft with a specific airframe, and you want to make repairs without grounding it. Therefore, it is very difficult, but it is possible. They received support and assistance from the Central Bank's management. However, in the past, some Central Bank governors did not allow this and, at times, even opposed us. Nevertheless, thank God, now any discussion we raise is supported, listened to, and believed in, and this is very important to us.[43]

The government also took important steps. For example, one of the measures we implemented addressed "delays and extensions." Before this, borrowers' debts were extended, with higher interest rates. We stated that commercial contracts were invalid because extending the term in exchange for an increased amount constitutes Usury. Therefore, the previous contract must be terminated in any way possible, especially if it is a commercial contract, and the borrower's debts must be fully settled. Then a new contract can be signed at a different rate. If it is a partnership contract, there is no problem extending it, as partnerships allow for it. This was an exceptional initiative for the bank, unprecedented in its scope. It is currently being implemented; it is not yet 100% complete, but we have received positive feedback, and it has been implemented in many places.[44]

We also intervened in the issue of interest-free loans from banks and were somewhat successful. The reason was that banks were advertising a 4% interest rate on loans.[45] What does this percentage mean? It should represent the bank's total cost in providing the interest-free loan. Profits were being calculated on annual loans repeatedly, which is illegitimate. We see that they should be calculated only once, based on the actual financing cost without any additional profit. We followed up with some banks and found that some did not charge any fees.[46]

In contrast, another bank implemented a low-cost method within the "Mercy Project." This financing method proved effective, as banks were able to distribute loans widely and

[43] Yousefi, Abizadeh, and McCormick, "Monetary Stability and Interest-Free Banking."
[44] Islam, "Murabahah Practices in Islamic Banking of Iran."
[45] Seyed-Nezamaddin Makiyan, "Role of Rate of Return on Loans in the Islamic Banking System of Iran," *Managerial Finance* 29, no. 7 (August 2003): 62–69, doi:10.1108/03074350310768346.
[46] Nahvi et al., "Portfolio Optimization of Bank Credits with Interval Returns."

achieve a tangible positive impact. It transformed resource management from a deficit to a balance, leading to increased capital and positive financial results when managed properly. Can loans advertised at 4% interest be considered interest-free loans if they require the funds to be frozen for a period and are effectively charged a high interest rate?

The main point is that accumulating points on deposits does not guarantee a loan. The relationship is not direct, and some entities distribute points to their employees to facilitate loan access, thus resolving the previous issue. Who is responsible for overseeing and ensuring that half of the banks' resources are allocated to the productive sector? If banks fail to implement this provision and the funds are diverted to speculative markets, who bears the responsibility? The banks are the implementing body for this matter. Therefore, banks must comply with this legal obligation. Fortunately, the central bank can easily monitor these activities, which are all conducted electronically, to verify whether they have been carried out. Bank Melli operates in a way that ensures funds are transferred directly to the end beneficiary. What does this mean? It means, for example, that if someone comes to buy a refrigerator and is financed by the bank, the money should go directly to the purchase of the refrigerator.[47]

The correct approach is for the bank to enter into a contract with a retailer and then refer the customer to that retailer. In other words, the bank tells the customer, "I purchased the refrigerator for cash from this retailer; you can purchase it from me in installments.[48]" This way, the money is transferred directly to the end user (the producer or seller). It enters the actual production and trade process without intermediaries.[49] Why has Islamic banking achieved significant progress in countries like Bahrain and Malaysia, while Īrān has not achieved the expected progress despite historically embracing the concept? Is the reason related to Islamic jurisprudence, a lack of political will, or weak bank management and governance?

In those countries, those who adopted Islamic or interest-free banking had genuine motivations to build banking within this framework. Therefore, they laid the correct foundations from the outset and designed the system to preserve its Islamic character and avoid interest.[50] Furthermore, international standard-setting bodies such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and the IFSB (Islamic Financial Services Board) provided standardized guidelines and criteria. These banks adopted and

[47] Meisamy and Zamanzadeh, "Shariah Compliant FX Swap."
[48] "Iran's Economy: Iran's Economy Is The 16 Largest in The World by Purchasing Power Parity | PDF | Business | Politics," *Scribd*, accessed September 14, 2025, https://www.scribd.com/doc/52096458/Untitled-1.
[49] Āmūzgār and Āmūzgār, *Iran's Economy under the Islamic Republic*.
[50] Ali Gheissari, *Contemporary Iran: Economy, Society, Politics* (Oxford: Oxford university press, 2009).

correctly implemented these standards. In Īrān, the legislature had the motivation, but implementation did not follow. Since the banking system showed no willingness, there were insufficient incentives. The necessary infrastructure—both hardware and software—was not in place to properly implement the Law; there was no tangible change in banks' performance compared to the period before the Law.[51] The central bank's Sharia Board does not yet have sufficient authority to force banks to implement interest-free banking policies. Intervention from other institutions is still required, which is undoubtedly very difficult. This is like repairing an airplane in the air; it is possible, but quite difficult.[52]

It seems that the main problem lies in the failure to provide the necessary conditions for implementing the Law. It might be argued that this is not related to the legislature, but rather to the executive branch. The legislature passed the Law, but the executive branch (the Central Bank and the Ministry of Economy) lacked sufficient authority to fully implement it. Previously, there was no designated official at the Central Bank. However, in the new Law passed in April 2025, the Central Bank was explicitly designated as the entity responsible for implementing Islamic banking. Previously, there was no designated supervisor, or if one existed, it did not function properly. The government was responsible for providing the necessary infrastructure, and among the essential bodies that should have been established from the outset were the Central Bank's Sharia Council and even the Sharia councils of individual banks.

If the Guardian Council had approved the Law on interest-free banking transactions from the outset, violations of sharia law could be reduced" today. Frankly, this Law is excellent, and if implemented correctly, it would have enabled banks to enter the market in a truly meaningful way. For example, Articles 11 to 16 of the Law stipulate that a bank may purchase a commodity or service upon a client's request and commitment. However, the question has always been, "Is trade within the scope of a bank's business?" Therefore, banks have not entered the realm of trade and have preferred to operate at a superficial level. The solution lies in designing a modern software system.[53]

A client can register a purchase order in the system, which the bank reviews and approves. The client is then referred to a trusted entity, and the funds are transferred directly to

[51] Mirjalili, "Islamic Banking in Iran بانکداری اسلامی در ایران."

[52] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ایران*, September 7, 2025, https://zaadiran.com/

[53] "خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق – Zaad Iran – زاد إيران," *Zaad Iran - زاد ایران*, September 7, 2025, https://zaadiran.com

that entity's account. The bank can purchase the commodity and sell it to the client in installments. If this software design is implemented correctly, the bank will be able to fully implement all Islamic contracts. Considering the reforms of the Seventh Development Plan, how do you see the future of banking in five years? Do we expect a radical transformation or a continuation of the current situation with limited reforms?

The key is "reforming the mindset first, then the performance." The new Central Bank Law provides suitable mechanisms: obligating the bank to implement interest-free banking, tasking the Islamic Fiqh Council with oversight, and collaborating with the Supervision Department to ensure effective bank supervision. Proper software design is essential to facilitate implementation and minimize risks. [54]Regarding inflation, the Central Bank contributes approximately 20%, private banks 60-65%, and government banks a very small percentage. One of the main factors is the creation of money by private banks exceeding legal limits. After overcoming these emergency circumstances, liquidity must be raised to control inflation. The Islamic Fiqh Council has Sharia-compliant instruments for monetary contraction, such as Waqf certificates issued under deposit contracts, which maintain purchasing power and are repaid at maturity with an inflation rate equal to the current rate. Other government-issued Islamic certificates can also be utilized through repurchase agreements (repos). These instruments have proven their effectiveness and legitimacy in recent years.[55] Digitalization can improve Sharia compliance by providing transparency, automating contract review, and directly preventing prohibited practices (such as riba, gharar, and maysir). Technology ensures that every transaction adheres to the principles of fairness and sound management in accordance with Islam.

**6. Bankruptcy of Private Banks**

Iranian authorities have declared Bank Ayandeh, one of the country's largest private banks, bankrupt and merged its assets with state-owned Bank Melli. The decision, announced late last week, reveals the deepest banking crisis Īrān has faced in years, with cumulative losses reaching $5.2 billion and debts reaching $2.9 billion. Why did a bank of this size go bankrupt? Ayandeh was founded in 2012 through the merger of smaller financial institutions, including Tatbank and Ansar, and quickly grew to include 270 branches nationwide. However, its expansion was not accompanied by any real structural reforms, according to Central Bank

[54] "من انهيار العملة إلى ضعف النمو.. الاقتصاد الإيراني يواجه اختبار الحرب الجديدة," accessed March 7, 2026, https://www.cnbcarabia.com

[55] Farhad Gohardani, *The Political Economy of Iran: Development, Revolution and Political Violence*, Political Economy of Islam Ser (Cham: Palgrave Macmillan US, 2019).

Governor Mohammad Reza Farzin. "All reform efforts have failed," he said, while the bank's capital adequacy ratio reached a critically low 600%. The causes of bankruptcy are corruption, mismanagement, and collusion.[56] How has these affected citizens?

In Tehran, customers queued outside closed bank branches, while police were deployed to secure the area. Despite government assurances that all deposits have been transferred to Bank Melli and will be available starting October 25, 2025, the crisis has further eroded public confidence in the banking system. The collapse of Bank Ayandeh is not an isolated incident. However, economic pressures have limited the bank's ability to grow.[57] The Central Bank of Īrān warned this year that eight other banks risked liquidation if they did not reform and adapt to intensifying Western pressure. Nevertheless, the problem goes deeper, as the entire banking system is reeling from mismanagement, corruption, and increasingly stringent international sanctions.[58] Bank bankruptcy is the result of weak governance and compliance failures, including those of the Sharia Supervisory Board (SSB). Violations of the Capital Adequacy Ratio (CAR) safety limit of 8% demonstrate that Sharia instruments cannot offset the poor mitigation of systemic financial risks.[59]

**7. What is the connection between sanctions and the bank collapse?**

Since the United States withdrew from the nuclear deal in 2018 and reimposed sanctions, Īrān's financial system has been deprived of dollars and international banking transactions. Last September, UN sanctions were reimposed through the "snapback" mechanism, while the US Treasury Department revealed Īrān's "shadow banking" network that managed nearly $9 billion through shell companies and oil companies worldwide to evade restrictions (الطرابيش, n.d.). What does this mean for Īrān today? The collapse of Bank Ayandeh was not just the downfall of one bank, but a sign of the instability plaguing Īrān's entire financial system. Domestically, trust between citizens and banks was increasingly fragile; abroad, the regime faced additional pressure as the shadowy networks it relied on to finance its nuclear and military programs were exposed.[60]

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[56] "اقتصاد الشرق مع بلومبرغ | اقتصاد إيران.. مقومات هائلة تحت ركام الصراعات السياسية," accessed March 7, 2026, https://asharqbusiness.com/economics/116191/

[57] Peykani, Ghaffari Nejad, and Varshosaz, "Challenges of Islamic Banking in Iran's Economy," 2025.

[58] "زاد إيران – Zaad Iran – خبير اقتصادي إيراني: النظام البنكي بلا ربا ما زال يواجه عقبات في التطبيق," *Zaad Iran - زاد ايران*, September 7, 2025, https://zaadiran.com/

[59] Havid Risyanto, "Determinants of Capital Adequacy Ratio Through Size, Liquidity, Credit Risk and Operational Efficiency in Sharia Commercial Banks in Indonesia," *Jurnal Ilmiah Ekonomi Islam* 7, no. 3 (October 26, 2021): 1261–69, doi:10.29040/jiei.v7i3.2668.

[60] "الاقتصاد الإيراني... الأزمة صعبة والعلاج أصعب," *اندبندنت عربية*, January 16, 2026, https://www.independentarabia.com/node/640557/

## 8. Causes of Bank Ayandeh's Collapse

From its inception, Ayandeh Bank attracted massive deposits by advertising extremely high interest rates, boosting its share of Iranian bank deposits from 3.2 percent in 2013 to 8 percent in 2018, before the share began to decline. Ansari used these deposits to provide enormous loans to his own companies, exacerbating inflation. As these unprofitable companies defaulted on their loans, the bank began paying interest to depositors with funds from new depositors. Recent data shows the bank generating 6 trillion tomans in annual revenue compared to 76 trillion tomans in expenses—an annual deficit of approximately 70 trillion tomans. After years of this deficit, its accumulated losses reached 540 trillion tomans, prompting the Central Bank to announce its dissolution.[61]

Transferring Deposits to Bank Melli From the People's Pockets. The deposits of 7 million customers were transferred to Bank Melli, which, according to the Central Bank, is supposed to "only bear the deposits, not the losses." Nevertheless, the reality is that the interest on those deposits will be paid from Bank Melli's own funds, which were suffering accumulated losses of 76 trillion tomans by the end of 2023. This effectively means that the losses caused by Ansari will be paid from public funds.

## 9. The Deposit Guarantee Fund Faces Collapse

The Deposit Guarantee Fund—established in 2013—announced the formation of a committee to address the crisis at Ayandeh Bank, in what is known in banking terminology as a "rescue operation." However, it is unclear where the Fund will obtain the money to cover these debts, especially after the previous failed sale of the IranMal project.

The Fund has only three sources of financing:

1. Subscriptions from member banks.
2. Profits from its investments.
3. Loans from the Central Bank with government approval.

The massive Iran Mal shopping complex, on which Ansari spent billions, has become the biggest symbol of the failure of his banking project. Ansari attempted to sell the complex in 2020 for 85 trillion tomans, but no buyer came forward. Despite the Central Bank's intention to sell it "piecemeal," analysts doubt that any proceeds will be sufficient to cover the enormous losses. Even if the complex is sold at the asking price, it will cover no more than 15 percent of

[61] Fatemeh Zarezadeh Mehrizi, “Investigating the Relationship between Job Security and Knowledge Sharing Behavior with the Mediator of Organizational Culture in Ayandeh Bank,” *Mediterranean Journal of Social Sciences*, May 30, 2016, doi:10.5901/mjss.2016.v7n3s2p161.

the total deficit. The domino effect of bankruptcies in the Iranian banking system is evident in documents confirming that the Ayandeh Bank crisis is not an isolated case.

As of October 2025, the Iranian banking system had issued more than 12,300 large loans, most of which were not repaid on time, bringing the total value of non-performing loans to 754 trillion tomans. Even Bank Melli itself, which "saved" Ayandeh Bank, has non-performing loans totaling 36 trillion toman. According to banking standards, a bank's capital adequacy ratio should be between 8% and 12%. However, in Īrān, this rate is:

- More than 8 percent at only 9 banks.
- Below zero at seven banks.
- The overall rate in the Iranian banking system is -18 percent.

In the case of Ayandeh Bank, the rate reached -600 percent at the time of its bankruptcy. Experts warn that this series of collapses could lead to a bank run, a rush by depositors to withdraw their funds, which could cause a complete economic collapse if people lose faith in the banking system. Ultimately, the Iranian citizen will bear the brunt of the consequences through inflation and soaring prices, while those responsible escape accountability.[62]

Table 1. Loans from Bank Melli Iran to Bank Ayandeh and the Flow of Funds[63]

| Loans For Ayandeh Bank | Value of Iran Mall vs. Loss | Loan Allocation to Iran Mall by Bank Ayandeh |
|---|---|---|
| 1.3 quadrillion rials (1.21 billion US dollars) | US$49.8 million: US$5.2 billion (15% of Total Deficit) | 70% |

## C. Conclusion

The Iranian banking system operates under Islamic Sharia principles (interest-free). It is supervised by the Central Bank of Iran (Bank Markazi-ye Jomhuri-ye Eslāmi-ye Irān). It faces significant structural challenges, including Western sanctions, high inflation, and liquidity crises at some private banks managed by non-governmental entities. The system relies on the local "Shtab" card network for transactions, and major institutions include Bank Melli and Bank Saderat. The following are the key features of the Iranian banking system:

[62] Kayhan Valadbaygi, *Capitalism in Contemporary Iran: Capital Accumulation, State Formation and Geopolitics* (Manchester: Manchester university press, 2024).

[63] Maziar Motamedi, "Corruption, Mismanagement in Spotlight as Iran Dissolves Major Private Bank," *Al Jazeera*, accessed May 24, 2026, https://www.aljazeera.com/news/2025/10/27/corruption-mismanagement-in-spotlight-as-iran-dissolves-major-private-bank.

## ISLAMIC BANKING IN IRAN: HOPES AND CHALLENGES OF BEING FREE FROM USURY

Islamic Banking: In theory, banks prohibit interest and use contracts such as Mudaraba and Murabaha to share profits and losses. Some Issues on Murabahah Practices in Iran and Malaysian Islamic Banks," *AFRICAN JOURNAL OF BUSINESS MANAGEMENT* 6, no. 24 (June 20, 2012), doi:10.5897/AJBM11.2859. However, reports indicate that interbank interest rates can reach 23%. System Structure: It consists of a central bank and a group of state-owned (such as Bank Melli) and private banks. Sanctions and Restrictions: Iranian banks have been largely isolated from the SWIFT global financial system, hindering international financial transactions and limiting access to foreign currency, especially after the US restrictions on dollar inflows. Financial Crises: The banking sector is facing a liquidity crisis and inflation stemming from private banks' money creation and loan provision to non-profit organizations, prompting the central bank to take rescue measures and dissolve failing banks, such as Ayinde Bank. Payment System: The national Shtab network dominates non-cash transactions (debit cards), while the rial is used for small transactions. Change and improvement of Iran's financial system are "a reform of the mindset first, followed by improvements in performance and discipline." The new Central Bank Law provides a suitable framework: it requires financial institutions to implement an interest-free banking system, assigns the Sharia Board to supervise, and collaborates with the Supervision Department to maintain effective bank supervision. Appropriate software design is essential to support implementation and mitigate risks. Regarding inflation, the Central Bank's contribution is approximately 20%.

In comparison, private banks' contribution ranges from 60% to 65%, while state-owned banks contribute very little. One key factor is private banks' money creation, which exceeds legal limits. Once the emergency is resolved, increased liquidity is needed to control inflation. The Sharia Board has Sharia-compliant instruments for monetary contraction, such as Waqf certificates, which are deposit-based contracts that maintain purchasing power and are repaid at maturity at an inflation rate equivalent to the total deposit. Other government-issued Islamic certificates can also be leveraged through repurchase agreements or repositioning agreements. These instruments have proven effective and legitimate in recent years.

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