The role of gold-backed stablecoins in Islamic finance



METALS

By Lim Say Cheong

Regulatory developments are beginning to support the evolution of gold-backed stablecoins. Certain jurisdictions are introducing frameworks that require stablecoins to be fully reserve-backed, independently audited and subject to appropriate oversight as seen in the Abu Dhabi Global Market and Dubai International Financial Centre in the UAE, the European Union's Markets in Crypto-Assets Regulation as well as initiatives by the Monetary Authority of Singapore and the Swiss Financial Market Supervisory Authority. Where Islamic products are concerned, the inclusion of Shariah governance further strengthens credibility. These developments are critical in moving gold-backed stablecoins from conceptual innovation to institutional-grade financial instruments.



From a financial perspective, tokenized gold stablecoins offer several advantages. Their linkage to gold provides a natural hedge and reinforces their role as a store of value, particularly in periods of geopolitical or economic uncertainty. Unlike many cryptocurrencies, which exhibit high volatility and speculative behavior, gold-backed tokens inherit the relative stability of the underlying commodity.

They also have the potential to enhance financial inclusion. By enabling fractional ownership, they allow a broader base of investors to gain exposure to gold without the need for physical acquisition or large capital outlays. Furthermore, blockchain-based transferability enables efficient cross-border transactions, reducing reliance on traditional banking channels and lowering transaction costs. This is especially relevant in parts of the Islamic world where access to robust financial infrastructure may be uneven.

Despite these strengths, challenges remain. Liquidity is a key constraint. Fiat-backed stablecoins benefit from widespread adoption, deep market integration and strong network effects. Gold-backed alternatives, while growing, have yet to reach comparable scale. This gap affects usability, pricing efficiency and integration into existing financial systems.

Price dynamics also present a limitation. Gold, while relatively stable, is not fixed in value against fiat currencies.

As a result, gold-backed stablecoins may fluctuate in purchasing power, which can limit their effectiveness as a unit of account for everyday transactions. This characteristic positions them differently from fiat-pegged instruments, which are designed primarily for transactional stability.

Operational integrity is another critical factor. The credibility of any gold-backed stablecoin depends on robust custody arrangements, reliable audit processes and clear legal structures. In a post-crisis environment where trust in digital assets has been tested, transparency and verification are not optional but essential. Institutional adoption will depend heavily on the ability of issuers to demonstrate these attributes consistently.

It is therefore more appropriate to view gold-backed stablecoins not as direct replacements for fiat-backed stablecoins, but as complementary instruments. They are well-suited for applications such as wealth preservation, cross-border settlement and Shariah compliant treasury management, where asset backing and capital preservation are vital.

The coming together of tokenization and Islamic finance reflects a bigger shift that is already taking place. Asset-backed digital products such as tokenized gold and Sukuk, are now seen as a natural fit with Islamic finance in the digital age.

This is because they stay true to the core idea of Islamic finance, which focuses on real economic activity and assets, while also using new technology to improve how things are done.

Gold-backed stablecoins could become a credible Islamic alternative to fiat-backed stablecoins. They are linked to real assets, avoid interest-based structures and are based on gold, which has long been accepted as a form of money.

This makes them a good fit within Islamic finance. That said, their success will depend on how well they are structured, the strength of their governance and continued support from regulators. If these are in place, they can not only work alongside existing systems but also help shape the future of Islamic digital finance.

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